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OVERSIGHT ON COMMODITY DISTRIBUTION PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON NUTRITION

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

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OVERSIGHT ON COMMODITY DISTRIBUTION PROGRAMS

TUESDAY, JULY 12, 1983

U.S. SENATE,
SUBCOMMITTEE ON NUTRITION,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:37 a.m., in room 328A, Russell Senate Office Building, Hon. Robert Dole (chairman of the subcommittee) presiding.

Present: Senators Dole, Pryor, Melcher, Leahy, and Helms.

Also present: Senators Jepsen and Wilson.

STATEMENT OF HON. ROGER JEPSEN, A U.S. SENATOR FROM IOWA

Senator JEPSEN. First of all, I would like to welcome all the witnesses to this hearing and to express my appreciation and that of the chairman for testifying before the Nutrition Subcommittee on the effectiveness of the current commodity distribution program—a program enacted as a temporary emergency food assistance act under the jobs bill.

Some of you have come very long distances in order to be here and we greatly appreciate your efforts to participate. I am particularly pleased to welcome our witness from Iowa. We will begin the hearing with Senator Grassley introducing Congressman Cooper Evans and Charles Palmer, the assistant commissioner of the Iowa Department of Social Services. My colleague, Senator Grassley, will have some remarks as well in introducing Mr. Palmer to this panel.

The commodity distribution program in Iowa has been recognized as a model program by the U.S. Department of Agriculture, and I am very proud that my State has been a leader in this area. Perhaps the experience that Iowa has had in successfully administering such a program can be shared with other States so that they may benefit from our experience there.

The State of Iowa ranked No. 1 in per capita distribution of surplus commodities under this program last year when the USDA first released Government-owned cheese to feed the needy.

Iowa has taken the initiative to develop an exceptionally effective, low-cost-distribution system, utilizing a tremendous volunteer effort. My State would be willing to help other States with problems they may have encountered in the administration of this kind

of emergency food assistance program, and the distribution of the actual commodities.

Later, we will hear from John Bode, the Deputy Assistant Secretary of Agriculture for Food and Consumer Services, as well as those who have direct experience with distributing food to needy local communities.

We will also hear from representatives of industry on the issue of commercial market displacement. I understand that Congressman Evans has initiated a GAO study, the results of which were supposed to be released today.

In addition, our last panel will address access to the wheat in the international food security reserve.

I would like to commend the distinguished chairman of the Nutrition Subcommittee for his leadership on the Federal nutrition programs in general, and especially for the commonsense approach that he took on the first legislative day of this Congress by introducing the Domestic Commodity Distribution and Food Assistance Act of 1983.

I am filling in as chairman for Senator Dole this morning until such time as he comes to take over the chair. Long before other Members of Congress took action, the distinguished Senator from Kansas decided to do something about the growing hunger problems in the United States.

While agriculture surpluses are overloading our capacity to store them, Senator Dole thought we could save millions of dollars in storage costs and at the same time provide food to the needy individuals in local communities throughout this country.

So, I am proud to have been an original cosponsor of Senate bill 17, and will continue to support efforts to bring this legislation to the Senate floor for action in order to extend the current temporary program enacted under the jobs bill. This program now expires at the end of September. There is a need to continue this emergency food assistance as long as CCC stocks are available to distribute to hungry Americans.

This legislation underscores the sensitivity of Congress to those in need who are not or have not been reached through other food assistance programs. So, I thank and commend the chairman of the subcommittee for the opportunity to actively participate in this hearing. It has been a pleasure to work closely with him on issues affecting Federal food programs during the last 3 years, and I look forward to continuing this working relationship.

We will now begin this hearing and I would like now to recognize my distinguished colleague, Senator Grassley, for any remarks he may have and for the purpose of introducing Mr. Palmer. Following Senator Grassley's remarks, we will recognize Congressman Evans and then Mr. Palmer for the main body of his testimony.

Welcome, Senator Grassley.

STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. I want to thank you, Mr. Chairman, and I also want to thank Senator Dole for his leadership for holding this timely hearing, and the opportunity for me to introduce two

spokesmen to represent Iowa's perspective on the surplus commodity distribution program.

First, we have a most distinguished colleague from the House, Cooper Evans, who will report on the results from a GAO study which he requested on the extent of fraud and commercial displacement within the food distribution program.

Second, I have the distinct pleasure of introducing Charles Palmer, deputy commissioner of the Iowa State Department of Social Services, who will provide input as to the need and the effectiveness of the program and what can be done to improve it.

Let me say frankly that Iowa has been a leader in the surplus commodity distribution program, as evidenced by its tremendously successful pilot programs and the amount of commodities distributed.

My distinguished colleagues on this subcommittee may not be aware that Iowa distributed in 1982 nearly 35 pounds of surplus cheese per needy individual, when the national average was about 7 pounds per eligible person. This, of course, was before the Temporary Emergency Food Assistance Act was enacted in the jobs bill, which provided Federal support for processing and distribution.

Not only was Iowa willing to commit State resources from an already strained State budget, but provided excellent administrative skills and utilized a large amount of volunteers which provided nutritional assistance to almost 500,000 needy individuals per month.

In March of this year when the Federal Government was unable to meet the demands for processing of its surplus raw cheese, Iowa piloted the State assumption of responsibility for processing and was able to negotiate with local processors to process cheese at 8 cents a pound as opposed to 12.5 cents a pound provided by the Federal Government.

Recently, however, because of reduced amounts of available commodities, Iowa has coped with a 75-percent reduction of cheese and butter from the previous year.

I look forward to testimony from our next two witnesses which can attest to the impact of reduced commodities on our needy and can provide insight into the alleged impact on commercial retailers and processors.

I hope, Mr. Chairman, that this subcommittee sees fit to extend the commodity distribution program beyond September of this year. Through testimony presented at this hearing, I hope that the program can be modified to continue to meet the demands and needs of our disadvantaged, which will address the need for stronger fraud control, balance the concerns of commercial retailers and processors and, of course, retain sufficient flexibility for the States to do a good job of administering.

Thank you, Mr. Chairman.

Senator JEPSEN. I now recognize and introduce the very distinguished Congressman from Iowa's Third District. He has some constituents here this morning named Jepsen. I would like to now recognize the distinguished Congressman Evans.

I would advise the Congressman that any written remarks you have will be entered into the record. You may read them or you may summarize, or proceed in any manner that you desire. Welcome.

STATEMENT OF HON. COOPER EVANS, A REPRESENTATIVE IN CONGRESS FROM THE THIRD DISTRICT OF IOWA

Mr. EVANS. Well, thank you, Senator Jepsen and Senator Grassley. It is indeed a pleasure to appear before the subcommittee and I do have some written testimony to submit,[1] and I think for the purposes of the proceeding here now, I would just like to comment a little less formally on a number of subjects that relate to the hearing today.

I would like to begin by saying that I have been and continue to be a very strong supporter of the commodity distribution program. In my district, I think that I and my district have taken the lead within Iowa, as well as within the country, in establishing the pilot programs for butter and cheese distribution over the last year and a half.

I have always felt and continued to feel that those commodity distribution operations in Iowa and in the Third District have been and are very well run, and I strongly support the continuation of those programs.

I was much concerned earlier this year when the USDA discovered and decided that it must reduce the volume of the distribution. Iowa would suffer seriously under that reduction, where the allocation in May of some 2 million pounds of cheese would be reduced by August to some 223,000 pounds—a reduction almost by a factor of 10—and where the butter allocation from May of 228,000 would be reduced to something like 76,000 pounds in August.

Clearly, the impact would be and is severe on the State of Iowa, and so this made me decide to ask for a General Accounting Office investigation to look at the problem of displacement and to see to what extent it actually existed, and to examine the management of the distribution programs not only in Iowa but across the Nation.

It is my principal purpose this morning, Mr. Chairman, to report on the preliminary findings of that GAO study. I would emphasize that it is not complete at the present time; that what I have to say today in oral and in written testimony is based on a briefing received yesterday from the GAO on the progress of their investigation, and it should be taken in that context and not as a report on the final findings of the GAO which will be available somewhat later.

Up to this point, the GAO has looked at the distribution operations in five States, including Iowa. I think they intend to look at three more States before they conclude the investigation. They have also examined the operations here in Washington at the USDA, the Food and Nutrition Service, and several of the regional offices involved.

What I want to comment on today, I think, are three elements of their preliminary findings, as I understand them, one having to do with the criteria of eligibility for receipt of the surplus commodities; another on abuses or flaws that occurred in the system; and, finally, on the amount of displacement of commercial sales by the commodity distribution program; finally, some conclusions which I would emphasize are my personal conclusions and not those of the

[1] See p. 72 for the prepared statement of Mr. Evans.

GAO, and I would not presume to say what their final conclusions will be.

But, first, the matter of criteria for eligibility: I think the findings of the GAO are going to show that a serious defect, in their judgment, is the lack of uniformity of criteria for eligibility across the country. I would say that this evolved out of a deliberate decision of the USDA, which I do not necessarily criticize because I think it was well founded in principle, at least, that at the Washington level there should not be any uniform criteria established across the country for this distribution; that those decisions would better be made at the State or conceivably at the local level.

As a result, we have little, if any, uniformity. As a matter of fact, in examining two of the regional operations of the USDA—in examining a number of them, it was learned that two took the initiative to establish criteria for their regions. The rest did not, and these two had different sets of criteria.

Within the States, there were wide variations in criteria. For example, in Iowa a principal one was that to be eligible, you had to have not in excess of 185 percent of the poverty income to receive commodities. In some States, I think there were no such guidelines.

In California, for example, all residents of that State over the age of 60, regardless of income, were eligible for the cheese distribution. This, of course, allowed people who had really no need to gain access to the distribution.

At the local level, there are even wider variations in criteria relating to income, on the one hand. Identification of recipients was also an area of great interest. And I think they are finding wide variations in enforcement.

To illustrate the latter point, in my own area, in Black Hawk County, which was the pilot program for our State and, I think, for the Nation in many respects, there is very tight enforcement in the sense that the operation there was run by several unions.

The union members took a very active part in distributing those supplies. When potential recipients were lined up to receive commodities, the union members made a very pointed effort of going up and down that line to detect people who really had no business being in that line to receive commodities.

At the other extreme were some distributions in other parts of the country where, for example, some elderly women would be responsible for the distribution and were very reluctant to question anyone's eligibility for the commodities, so a wide variation in criteria and in enforcement.

Next is the subject of abuses. Now, what you define as abuses, I think, depends a lot on what you assume to be the goals of the program. If the principal goal of the program is to reduce surpluses, then abuses are not the same as if the principal purpose of the program is to provide food for the needy.

I do believe that the Department's goals, in the broadest sense, were two-fold: first, to reduce the surplus, and second to provide food for the needy.

If, however, we look at the narrower objective of feeding the needy, then there was a wide range of what one might call abuses. I would note that I believe the GAO is not finding any number of large-scale abuses, but that there are many cases of small irregu-

larities at the local level; for example, the receipt of commodities by people with very high incomes in some instances; instances of multiple visits to a number of sites.

This is documented in our State of Iowa of one individual who went to four different sites and received 60 pounds of cheese in a matter of a day or two. There are some indications in a number of localities of falsification of identification where there was no good verification procedure involved.

And then there are instances in some parts of the country of discriminatory criteria being established rather arbitrarily. For example, I think the GAO will report that there are instances where organizations that were given the responsibility for distribution would say the principal criterion for eligibility is that you be a member of this organization.

I think that there will be at least one instance reported where not only did a church say you must be a member of the church, but you must attend Sunday service in order to receive distribution. Clearly, this was not the intent of Congress or of the USDA in establishing the program.

Senator LEAHY. It was not even in the report language. [Laughter.]

Mr. EVANS. There are also, I think, some instances that will be reported where the distributing agencies asked for voluntary contributions in connection with the distribution, and I think this evolved out of a situation where insufficient funds were provided, in their judgment, to handle the administrative costs of the distribution.

In addition, there are some just plain goofs involved, and we might mention one from the State of Iowa where it was determined that a number of university students qualified very adequately under the criteria of income but they were students that had prepaid their board and room for the semester and still were eligible and did receive some commodities. So, there are some refinements that are needed.

It has been estimated by some competent observers that if one defines abuses as the wandering off of commodities from the truly needy, perhaps as much as 30 percent of the distribution of cheese did not end up in the hands of the truly needy in the country.

I would note here that in connection with these abuses, very few of these were reported and a point made of abuses by commercial interests and local retail merchants. Most of the complaints received and acted upon came from individuals who were displeased with the actions of their friends and neighbors in this regard.

The matter, then, of displacement of commercial sales: I think the GAO will conclude that there truly is displacement; that for virtually every pound of cheese distributed, there is some displacement of commercial sales. And for every pound that is displaced, there is some increase in Government purchases in the present situation of dairy surpluses in this country.

I think they will also conclude that at the initial level of distribution of 20 million pounds of cheese a month in this country, the displacement was relatively negligible, but that as the distribution increased to some 60 million pounds a month, as it did this spring, it became very, very significant and that that led to the action by

the USDA to cut back on the amount of cheese and butter that was being issued.

Finally, to come to several conclusions, which I again emphasize are my own and are not what I think the GAO is going to conclude, although there may be some similarities, I would list these.

It is a very popular, very worthwhile program that has done worlds of good for the needy people of my State and of all the States in the Union; that it should be continued and refined, and to the extent that it is possible to do so, expanded.

I would secondly conclude that it is an excellent tool for feeding the needy, but it is a worthless approach to reducing the surpluses of butter and cheese that exist in the country, given the present support system, and I believe that the data in the report will clearly support that conclusion.

Third, I would conclude that there are many abuses, mostly small, which may have allowed as much as 30 percent to stray from the hands of the truly needy, if one assumes that abuses are such wanderings off of the commodities from those who are truly in need.

Fourth, and getting to what I think is not only a conclusion but a recommendation on my part, there is truly a need for some uniform criteria of eligibility across the country in this program. And I think that the criteria should include elements that relate to income, and I think the criteria should also relate to identification, verifiable identification, of the people receiving the commodities.

I would add to that that this in no way means that I think we want to have a complex system of criteria and verification. I think it is absolutely important that it has to be kept simple and I do not think that these things are incompatible.

Fifth, I would say that from my understanding of the GAO report, the USDA was justified in reducing the amounts of commodities, cheese, and butter, that were being distributed across the country, although I guess I would take exception to their action in the case of Iowa, in view of the very dramatic reductions that resulted to our State.

Sixth, I would conclude that reductions alone will not eliminate the abuses; that these reductions have to be coupled with criteria.

Finally, I would make this point that, to me, is the most important: if we feel compelled to tighten down on the volumes that are distributed, then it becomes even more important that there be some strong criteria to assure that this smaller volume of goods goes to those who are truly in need.

Thank you, Mr. Chairman. I appreciate the opportunity to appear before your subcommittee.

Senator JEPSEN. Well, thank you, Congressman Evans. First of all, I want to applaud your efforts in initiating the GAO investigation into the commodity distribution program. From what I have heard you say in these very interesting comments on the investigation, as a method of reducing Government dairy inventories, the program has not been a very big success.

Mr. EVANS. No.

Senator JEPSEN. In fact, dairy inventories have risen since the program was implemented.

Mr. EVANS. That is right.

Senator JEPSEN. By the same token, as a program to feed hungry people, there are mixed reports, but generally it has been successful.

Mr. EVANS. Absolutely.

Senator JEPSEN. It is further my understanding that the GAO investigated eight States, but Iowa was the only one that had sufficient statistical data on which to make any conclusive analysis.

Mr. EVANS. That is correct.

Senator JEPSEN. You have made some recommendations; one, that there should be some national guidelines for eligibility. Did I understand that correctly?

Mr. EVANS. That is a conclusion that I come to reluctantly. I admit to considerable sympathy for the USDA's initial position that the judgment on eligibility could better be made at the State and local level.

But I think the GAO findings will show that the variations have been so great, and in some cases somewhat illogical, and that there is a need for guidelines at the national level.

Senator JEPSEN. Senator Leahy?

Senator LEAHY. Well, Mr. Chairman, I do not have questions for the Congressman. I appreciate his statement, and he has done a great deal of work in that regard and I am glad to see any members of either of our bodies going out and doing some oversight on the programs we pass. I commend you for that, Congressman.

I do have a short statement, though, at such point as the Congressman has completed that I would like to make for the record.

Senator JEPSEN. All right.

Senator Melcher, do you have any questions for the Congressman?

Senator MELCHER. Congressman Evans, how many pounds of cheese during the 19 months did the State of Iowa distribute?

Mr. EVANS. I guess I cannot tell you the total. The numbers that I happen to have in front of me were the monthly rate at the end, which reached approximately 2 million pounds a month. Perhaps the chairman has some more data.

I am sure that a bit later, the people from the State of Iowa will be able to give you those figures more accurately than I could. But we reached a peak of about 2 million pounds early this spring, and the proposal is to cut that to about 223,000 pounds in August.

Of course, Iowa, by virtue of being one of the largest distributors, suffers the most in reduction under the formula that has been proposed by the USDA.

Senator MELCHER. Did Iowa ever have any problem getting cheese from the Department of Agriculture?

Mr. EVANS. We had no problem in getting cheese in the sense that it was always available to us in such quantities as we thought we could distribute. The difficulty that arose had to do with the capacity of the Department to process that cheese.

So, we avoided that difficulty by saying, "If you, the USDA, are unable to process the cheese, we in Iowa will arrange to process it ourselves," and we handled it in that manner in the most recent months of the distribution.

Senator MELCHER. At the start of the program, the Department of Agriculture had some foolish individual that said, well, maybe we will just have to dump this extra cheese in the ocean.

We had great difficulty in getting cheese into Montana; I think it took months after the requests were made, no matter who made the requests, for them ever to move any into Montana. They constantly told us, "We are providing to the State of Montana all that they can use."

Everybody out there said, "Well, where is the cheese?" All the information I could get back was that they could not find it in the State. So I wondered how you people got such a surplus amount of this surplus cheese that you did not know what to do with it.

Mr. EVANS. Well, we did not know what to do with it. We distributed it very effectively and I think the key to our success lay in the fact that we had a handful of extremely aggressive, knowledgeable people who could tell the authorities when it was necessary, "Here is where the cheese is located. If you have difficulty with transportation, we can provide volunteers who will transport it free. If you have difficulty processing the cheese, we know where the people are who will process it for little or no cost. We have a good organization that can distribute it."

I think it was because we took a strong initiative and were able to demonstrate to the satisfaction of the USDA that, yes, we in Iowa could handle the problems and overcome the obstacles, and that was the key to unlocking those supplies for distribution in our State.

Senator MELCHER. We had all of those keys, except I am not sure about the processing of it. But we had the organizations in place and church groups coming out of our ears that wanted it and could never get it. Maybe they subsequently have gotten it in the past four or five months; I am not sure.

We had a State group that knew how to run it around the State. We had senior citizen centers all over the State that would have taken it any day of the week they could find it. We could not find it and they could not find it.

We had all those kinds of keys. I am not sure about the processing of it; I do not know whether we can process it in Montana or not, but all the rest of it we had.

How were they distributing it? Anytime I have been present when they distributed it, I only found it in 3- or 5-pound boxes or just chunks. How was it distributed in Iowa?

Mr. EVANS. Well, in our instance we repackaged a great deal of cheese. We reprocessed 500-pound tubs of cheese into packages.

Senator MELCHER. How big were the packages?

Mr. EVANS. They varied depending on the applicant, and so on.

Senator MELCHER. Was it more than 3 to 5 pounds?

Mr. EVANS. No. That would be the general size. We also arranged to have butter that was available only in large slabs resliced and processed to packages that made more sense for distribution to individuals.

This was all done at the initiative of local people who were very enthusiastic and knowledgeable on this subject.

Senator MELCHER. How does a person get the 60 pounds? That does not surprise me, by the way, that somebody might take advan-

tage of a program. But how did the person get 60 pounds? Was it twenty 3-pound——

Mr. EVANS. In this instance, the criterion in Iowa was that if you were a family of seven or more, you could receive 15 pounds. It was graduated by the size of the family. This individual came in and gave a false name and a false address and stated that he was the head of a household of seven or more, and did this at four separate sites in the course of just a couple of days over one distribution. At each site, he was given 15 pounds, for a total of 60.

He was never apprehended because in the State of Iowa at that time they did not have a system in which you had to have verifiable identification. You had to register and give a name and address, and that was it. But he did use the same fictitious name and the same fictitious address at all four.

We have had a good system in Iowa of alphabetizing and comparing recipients to see to what extent there have been duplications. And I would point out to you that this is the worst example that occurred in our State, and that I personally at least was quite relieved to discover that this was the worst example that we could find of an abuse in the State of Iowa.

Senator MELCHER. In making out eligibility criteria, are you recommending that the criteria be of a nature of an income eligibility check?

Mr. EVANS. I think that is one thing.

Senator MELCHER. Are you recommending that or not?

Mr. EVANS. Yes, I am recommending that personally; yes, I am. In Iowa we have had that particular eligibility requirement set at 185 percent of the poverty level, which is the same as the reduced-price school lunch and the same as the WIC program.

I think as one tightens down on the amounts that are distributed nationwide, one must tighten further on income eligibility if one is going to assure that the products go to needy people.

I think it is not appropriate for California, for example—and I should not be critical of that State, but I just happen to know this one example. In that State, if you are over 60, you can qualify for cheese regardless of income. The Members of Congress from the State of California would be eligible for cheese distribution under their criteria if the member exceeded 60 years of age.

Senator MELCHER. How about 65?

Mr. EVANS. Sixty-five is no different.

Senator MELCHER. Would you approve that?

Mr. EVANS. Pardon?

Senator MELCHER. Would you approve that?

Mr. EVANS. I do not know. I had not thought about that. I think these are minor points compared to the overall eligibility income requirements imposed on people of younger ages.

Senator MELCHER. I have only witnessed this distribution of cheese probably two or three times, and what I witnessed may not be typical. But what I have witnessed is lines of people waiting for them to start.

It does not seem to me that you are going to wait in much of a line if you are a person of 65 for very long unless you really want the cheese. That would be a test; would it not?

Mr. EVANS. That is probably true, and I think that the point of importance there to me is that the system must be kept simple. I know in Iowa the problem has been the lack of verification of that signature.

If a person were required in receiving that commodity to display a driver's license, a social security card, or any other verifiable identification to assure that the name and address put on that receipt were real and not fictitious, this would go a great distance toward eliminating abuses.

Senator MELCHER. Do you not feel, however, that we ought to have this cheese available in senior citizen centers?

Mr. EVANS. I certainly do, yes, and I think that is a different part of the program, perhaps, than the distribution to the public in general in these lines that we have had in the last year and a half.

Senator MELCHER. There ought to be general distribution to people over 65.

Mr. EVANS. It could be; I would not argue the point one way or the other.

Senator MELCHER. Are you in favor of keeping the program going or not?

Mr. EVANS. I certainly am, and in strengthening it and in expanding it to other commodities. It has been invaluable in my State and, I think, across the country.

Senator MELCHER. Would you add other commodities to it?

Mr. EVANS. I would add other commodities, yes, I would.

Senator MELCHER. Thank you very much.

Senator JEPSEN. Senator Pryor?

Senator PRYOR. Mr. Chairman, I have a brief statement just to include in the record, if I might, and then maybe questions later.[1]

Senator JEPSEN. Any further questions for the Congressman?

[No response.]

Senator JEPSEN. I thank the Congressman. During the first quarter of this year, the USDA was releasing, as you indicated, about 60 million pounds of cheese. And when reports of displacement, which has not been discussed much here, began to occur, they cut back the amount of cheese released to 25 million pounds per month.

Senator Melcher, an issue of special concern that has been raised is whether all elderly individuals should be eligible to receive cheese or whether only the needy elderly should get it. Pennsylvania has especially had a problem in this area.

In Iowa they did investigate the displacement that occurred at 185 percent of the poverty level, which is $17,500 a year, and found out, according to their study, that there was a 27-percent displacement.

Senator MELCHER. Well, I think it is obvious that if you are hungry for cheese, that is what you are going to buy with your food dollar. Once you have gotten it somewhere else, you are going to displace purchases. I find nothing peculiar about that.

We have already paid for the cheese once, the taxpayers have, and surely the farmers have had some difficulty with this program

[1] See p. 68 for the prepared statement of Senator Pryor.

and taxpayers have at least had to bring up the money to pay for the program.

If retail merchants have a slight dip in cheese sold, I would think you would have anticipated that.

Senator JEPSEN. One of the problems is that studies do show that low-income groups do not habitually purchase cheese. So, we have the question of whether they are taking that money now that they are getting cheese and using that now to spend those dollars on food products that help their diets.

Senator MELCHER. Well, there are about 4 or 5 million Americans that were not classified as low-income a year and a half ago who are now classified as low-income on the basis of eligibility of this program from being unemployed.

Maybe that varies from State to State, but they certainly must have bought cheese before when they had a job, and I would think they would eat cheese after they quit having a job even though they are on unemployment.

Senator JEPSEN. I will now introduce and call to the witness chair here Mr. Charles Palmer, the assistant commissioner of the Iowa Department of Social Services.

Senator LEAHY. I wonder if I might make my statement.

Senator JEPSEN. Yes.

Before you proceed, Mr. Palmer, I would advise you that your statement that you have in writing will be entered in the record as if read.

Before you do, we will take any Senators who do have statements for the record. We will start with Senator Leahy. You may proceed.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT.

Senator LEAHY. Mr. Chairman, I will put my whole statement and a couple of additional matters in the record. I am sorry that I am going to have to leave for another committee meeting because I think this is extremely important.

I have read down through the material before us; much of it is very interesting. I would commend especially a statement by Jo Ann Elliott from Kansas, which is excellent. It is the kind of statement I like; it is short, to the point. It makes very clear her position; it shows what from another part of the country I would call in New England understatement. It is very well done.

Another one by Larry Minear shows, again, his typical incisive analysis of this, and he is a person who has been very valuable to this committee in his statements before.

Mr. Chairman, I want to commend—and I will rewrite this again here, changing it as the Chair changes.

[Whereupon, Senator Dole assumed the Chair.]

Senator LEAHY. I commend you for your continued efforts on commodity distribution nutrition programs and your initiative on S. 17. I think this hearing is going to focus on that legislation, the need for its continuation, the administrative problems encountered thus far, and changes that will be necessary in the program.

I want to just mention that in my own State of Vermont and elsewhere throughout the country, there is more than a demon-

strated need for surplus commodity distribution; there is a crying need; 10 percent of this country's labor force does not have a job. Together with the drastic cuts in food stamps and other nutrition programs, the use of emergency food shelves and food banks is skyrocketing.

In Vermont, more than 870,000 pounds of cheese has been given out. But the Department of Agriculture has recently decided to suspend the program; that is what it amounts to. They call it a reduction, but it the effect in Vermont, at least, has been a suspension. I just really cannot accept that, Mr. Chairman.

The human suffering exacted on the Nation by recession is not measured by statistics. I think to discontinue this valuable program in a time of economic distress is to ignore the reality of the plight of millions of people. It certainly ignores the reality of an awful lot of people in my own State.

Because of that, I am going to submit for the record two statements prepared by Vermonters on this situation. One by Gus Seelig clearly demonstrates that Vermont can use surplus commodities. The second, prepared by the Windsor County Unemployed Counsel, reaffirms the fact that surplus foods are helping people who have no place else to turn. It is not a case of their getting something extra; these people have nowhere else to turn.

So, as I said before, I realize you have a lot of other witnesses and so I will ask that my whole statement and the two statements of the two Vermonters be placed in the record.[1] Again, I commend you for holding these hearings, Mr. Chairman.

Senator DOLE. Thank you very much, Senator Leahy. I apologize for being a bit tardy, but I want to thank you for your continuing interest in a bipartisan way to this important program.

I also want to thank Senator Jepsen for his willingness to not only chair the meeting, but for his leadership in the nutrition area over the past 2 years. He was an original cosponsor of S. 17.

I also want to make Congressman Daschle's statement a part of the record. He is concerned about tapping the wheat reserve, and believes it is not necessary to meet domestic hunger needs. I think it is a good statement.[2]

As I understand it, Mr. Palmer, you are the next witness.

Mr. PALMER. That is correct.

Senator DOLE. Does anybody else have opening statements? Senator Wilson?

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Mr. Chairman, I have a brief opening statement. The Senator from Vermont has left. I would like him to know that New England understatement is contagious, so this will not take long.

Essentially, I just want to thank the Chair for his leadership and introducing this legislation. I want to tell you that it has struck a very responsive chord in my State. It has recognized that you are

[1] See p. 67 for the prepared statement of Senator Leahy; p. 133 for a memorandum from Mr. Seelig; and p. 134 for the prepared statement of the Windsor County Unemployed Counsel.
[2] See p. 70 for the prepared statement of Mr. Daschle.

not only addressing the problems of the needy with respect to surplus foods, but you are also going to do something with this legislation about the costs of storage that are serving no useful purpose if we can get this food into the hands of the people who need it.

We are particularly grateful in California that you have provided for administrative costs to assist the State in making distribution; that you have extended the life of this program, as it needs to be, beyond the brief duration provided in the emergency jobs amendment.

I have with me, Mr. Chairman, a copy of letters to me from the president pro tempore of the State Senate of California, David Roberti, expressing the support of the State senate. It is signed not only by Senator Roberti, but by what looks to be a clear majority of that body, with members of both parties.

Also, I would like to enter, in addition to Senator Roberti's statement, the testimony of the Honorable Bill Greene, a member of the California State Senate, also expressing the support of the California State Senate for the chairman's Domestic Commodity Distribution and Food Assistance Act.

Mr. Chairman, I will take no more of your time and simply ask that my statement be entered in full, along with those of Senator Roberti and Senator Greene.[1]

Senator WILSON. I would add only one thing. In the course of his comments, Senator Roberti has indicated that the State of California has already undertaken four food programs. They have a California Committee on Emergency Food Distribution to assure that the four food programs now operating with funds from the Federal Emergency Jobs Act are coordinated and administered in the most efficient manner, fully utilizing designated Federal funds. He expresses his gratitude for your leadership.

Senator DOLE. Thank you very much, Senator Wilson.

Senator MELCHER. Mr. Chairman?

Senator DOLE. Senator Melcher?

Senator MELCHER. I do not have any prepared statement, but I certainly have a prepared feeling about how this program has been administered. I think it has been administered by the Department of Agriculture in a half-hearted way, and that half-hearted way has been further traumatized by being a very cold half heart.

We have had a very extreme, difficult time wangling any of this cheese out of the Department of Agriculture to satisfy some of the hunger problems in Montana, which seems ironic considering the huge amounts sitting around in surplus.

Then, with the admission of the Department a couple of years ago that it cost more to store it than to distribute it, with this cost-conscious administration, I thought the Department would also be cost-conscious on that, but I have not found that to be the case.

There has been very meager distribution in Montana as compared to the needs there. I find it particularly ironic that the Department cannot seem to provide enough for senior citizen nutrition center needs. That just boggles my mind; when they have got a ready-made distribution set up and a ready-made use of it set up,

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[1] See p. 69 for the prepared statement of Senator Wilson; p. 135 for the letter of Mr. Roberti; and p. 135 for the prepared statement of Mr. Greene.

that they cannot have plenty of it there for senior citizen centers at all times.

Senator DOLE. Senator Pryor?

Senator PRYOR. I have already included my opening statement, Mr. Chairman, and I have no further statement at this time. I may have some questions. Thank you, sir.

Senator DOLE. The record should reflect that I think my first, real recognition of Congressman, now Senator, Pryor's efforts were in feeding programs for senior citizens. I cannot remember the precise date, but he did a lot of work on the House side before coming here. We are happy to have you here this morning.

Senator PRYOR. You are nice to remember that. Thank you.

Senator DOLE. That was a number of years ago.

Senator PRYOR. Too long.

Senator DOLE. Not too long.

Well, Mr. Palmer, now we will hear from you.

STATEMENT OF CHARLES PALMER, DEPUTY COMMISSIONER, IOWA DEPARTMENT OF HUMAN SERVICES

Mr. PALMER. Mr. Chairman, Senators, I am very pleased to be here. I am Chuck Palmer, deputy commissioner of the Department of Human Services in Iowa. I also am the director of mental health and mental retardation for the State of Iowa.

If it seems strange that the person who is in charge of mental health and mental retardation is also in charge of the State commodity program, I believe that probably the first step toward a State's good mental health starts with its freedom from fear of hunger, and we certainly do have some hungry people in the State of Iowa.

We would really like to speak to four main points rather quickly. One, do we need to extend the program in Iowa? The second is, are the truly needy being served in that State in the way we have been administering the program?

Are there problems in administration of the program, and are there some ways that the program could be improved? So, it would be those four topics that I would like to speak to.

First, do we need to extend the program? Clearly and strongly from the State of Iowa, we believe we do. We do have hunger in the State of Iowa; we do have malnutrition in the State of Iowa.

We have had in the monthly distribution of this program 500,000 people learning to depend on the program on a monthly basis. We have found that we can distribute the commodity program in a very cost-effective manner using throughout the State of Iowa, monthly, 4,600 volunteers and distributing monthly at 322 different distribution sites.

The exact extent of the hunger problem in Iowa is now being reviewed. The Governor has put together a State committee on food and nutrition and we are studying the degree to which hunger is an active force in the State of Iowa.

If the number of people coming and using the program is any indication, we certainly have a large number of citizens of Iowa that have learned to depend upon this program.

The question has been raised, are the really needy people in the State of Iowa the ones using the program. I think this goes back to some of the comments that Representative Evans made, and it gets back to some of the possibly confused or changing goals and policy direction of the program since its very inception.

It seemed that the initial policy and goal of the program was to reduce Federal surpluses of food. So, the initial message that went to States was, be very liberal and very broad in your eligibility guidelines, as there is a great amount of surplus food that needs to be distributed across the United States.

Since then, the primary goal of the program has seemed to move toward feeding the truly needy. So, our initial, broad guidelines brought a large number of people into eligibility in the State, and the guidelines have already been mentioned. That has, in some ways, now worked against us as the program has been severely cut back.

But during the 19 months or so of the program, we served a large number of people. We did so from broad guidelines. We were able to cover the new poor and the unemployed and the elderly.

One of the things, I think, about our program is that we have used a large number of distribution sites across the State—322. That gave us a much better distribution capacity in the rural areas. It allowed us to get much closer to the elderly populations; allowed us to distribute in a large number of small towns, which I think even helped reduce the stigma associated with the taking of the commodities.

So, I think the accessibility of the program has been one of the things that has been one of its real strengths in the State of Iowa, and I think has assured that many of the people who really needed the commodities were getting those commodities.

A number of questions have been raised about problems in the administration of the program, particularly the question of displacement, which we have already spoken to this morning, and fraud and abuse.

We have not found displacement to be a major problem in the State of Iowa. We have carried out a couple of informal surveys, talking with a number of retail outlets. They have not made any major complaints about the program. We have received very few complaints at the State level at the Governor's office.

The Iowa Dairy Commission felt that in the fourth quarter of 1982, there was some drop in use of American cheese by about 7.7 percent, but other cheeses had increased in sale by 11.3.

I think when we look at the question of displacement, we have to look at whenever those surveys were done, the timing of those. Has there also been a decrease in sales of other foods, or have some other food sales gone up because of the availability of cheese to low-income people?

What about other cheeses? Have those sales gone up? Have we taken into account the impact of the economy on sales at this point, because the economy, as we all know, has been a very difficult one and recession is still holding on very tightly in Iowa?

We need to look at those sales in relation to trends across the country in prior years.

On the question of fraud and abuse, we do have some very not stringent, but regularly used quality control measures. We believe that quality control is very important and that it does lead to having a program that there is a sense of integrity in by the people of the State of Iowa.

In fact, I think in Iowa there is a pride that has gone into the program because of how well it has been administered and the number of volunteers that have been actively involved in the distribution of the commodities. We get as much advocacy for the continuation of the program by the volunteers who have served in the program as by the recipients of the program.

We take a random sample of the recipients following each distribution and follow up with that random sample. We are finding a less than 1 percent rate of fraud—people who have taken commodities who were not eligible or people who have taken more of a commodity than they were eligible for. So, that very small rate of fraud and abuse speaks very positively to the way the program is being administered.

We would feel that quality control and follow-up and eligibility criteria are important for the integrity of the program.

We would hope that some improvements could be built into the program. We would hope that there would be a policy commitment that would stabilize this program over the next year or two; that adequate amounts of commodities would be available to States on a regular basis so that we could depend on them and so that we could keep in place our very cost-effective volunteer network.

We would hope that there would continue to be some dollars provided to the States for the administration of the program. We would agree that uniform eligibility guidelines would be put in place nationwide, and that whatever distribution formula is set up that would go to States would take into account past performance of a given State.

So, we are asking for an increased allocation over what we are receiving now; a clear, long-term policy direction on the program; some Federal financial support; some help around uniform eligibility.

We believe this program meets a real need. The people in Iowa have depended on it. We would hope you could keep it going, and I thank you for the opportunity to speak.[1]

Senator DOLE. Senator Pryor?

Senator PRYOR. How is the food distributed to the nutrition centers, the elderly centers?

Mr. PALMER. What we have done is have open distribution, and then if there is any left over then that is allowed to be used within the feeding programs. There are also other Federal food programs that provide food for the meal sites.

As we have a number of outreach programs across the State of Iowa, many of the homebound elderly receive the cheese directly. Volunteers take this to their homes—cheese and butter. So, it gets to the elderly in several different ways.

Senator PRYOR. Do you find in Iowa that the demand for these commodities is greater than the supply that you have to distribute?

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[1] See p. 75 for the prepared statement of Mr. Palmer.

Mr. PALMER. The demand has been greater than the supply. The supply has been, in part, limited by our own internal capacity to put trucks on the highways and volunteers on the front lines.

We were distributing up to as much as 1.3 million. We have not had the same experience as the Senator from Montana. We have had an excellent working relationship with the Denver office of USDA.

The real problem was when the Federal Government was not able to process the cheese themselves, and we took up our own local processing where we received some dollars to pay for that. That has worked out very, very well.

Senator PRYOR. In Iowa, is the title XX funding meshed into the program for distribution?

Mr. PARKER. Title XX would be the social service block grant and, no, it really is not; those two are not mixed.

Senator PRYOR. You are not utilizing the title XX funding to assist in distribution?

Mr. PALMER. No, not at all, for this distribution program. Obviously, many of the people who are beneficiaries of that funding source are also beneficiaries of the commodity program.

Senator PRYOR. I would like just a thumbnail idea what extra amount of commodities could you have in the State of Iowa and efficiently distribute to those who are qualified to receive them? What sort of an increase would you really like to have?

Mr. PALMER. We were at our peak distributing about 1.3 million pounds of cheese per month, and we were feeling, on the guidelines that we were using, that that was an adequate level; and approximately 500,000 pounds of butter a month. That seemed to be quite adequate.

If we could get back to that level, what we are trying to explore is how to pull together the Federal and State commodity program more closely with the developing food bank/food pantry program, and put together a truly integrated public-private system.

As I mentioned, the Governor has set up a statewide committee to explore the possibility of doing this. Iowa administers 13 different Federal commodity programs. Those 13 run out of 4 basic State departments and go to basically 4 different populations: children, elderly, low income, and the WIC nutritional program.

I imagine we could have some greater coordination between those four, including the public and private sector. That is what we are really going for, and I would hope that there would be direction from the Federal Government that would reinforce that kind of movement on the part of the State.

Senator PRYOR. Thank you, sir. One final question: What has been your relationship with USDA and those responsible for distributing to you? What is your relationship?

Mr. PALMER. Again, our work with the Denver office has been very, very positive. They have been a strong advocate for us. They have, I believe, tried very hard to be responsive to the needs that we have brought them. And because we were very active and we started days after the President initially announced it, we have made many demands of them.

We have had an adequate amount of cheese and butter, if the Federal Government was able to process it. It has only been in the

recent policy cutbacks that we are really in a position of not having what we need.

Senator PRYOR. Thank you. Thank you, Mr. Chairman.

Senator DOLE. Thank you very much.

I have no questions, Mr. Palmer, and I appreciate your testimony.

I would just include in the record a statement that I have prepared.[1]

We are taking a look at S. 17. I must say, though, that, as one of the original sponsors, this was never intended to be a permanent program—it was an emergency food assistance program. The last thing we need is another Federal entitlement, where we are going to be producing for no reason except to fulfill the needs of a new program that was intended to reduce the amount of surplus commodities in storage while fulfilling a humanitarian purpose.

If, in fact, much of the available food is going to nonneedy individuals, then I think this is an area we must address. I think I can almost recite what I said in introducing this legislation. I am not proposing another permanent food program.

How many different commodity programs do you now have in existence?

Mr. PALMER. There are 13 different ones operating.

Senator DOLE. Thirteen. You need about 10 more. [Laughter.]

That is the problem. Once we start down this road, there is always going to be an effort to continue a program—even to expand it. This was intended to be an emergency supplemental food program. It was not intended to displace the food stamp program and other good programs that we have, but to complement these existing efforts.

So, I would hope that the Temporary Emergency Food Assistance Act may be extended, but on the theory that it will be tightened up. As much as we can, we should avoid any distribution of food to those who are not in need, and we should properly target the funds that we have available.

I understand that Iowa has an excellent program. We appreciate your efforts to properly administer that program. I also understand it is easy to criticize the administration for their handling of the program, but we must realize that it is a new program which has not been in effect all that long. We want to tighten it up, and try to make it work better.

We are going to hear from the administration witness next. We are now going to call John Bode, Deputy Assistant Secretary, Food and Consumer Services.

I think before getting into your prepared statement, which I hope you can briefly summarize, you must shed some light on the stories that are circulating about the $1.2 billion funding problem we have in the food stamp program? Then Senator Pryor and myself will have some questions.

I think Secretary Block, as required by law, has sent letters to the States and to Members. That amount has been recommended to be appropriated by the administration. Is that correct?

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[1] See p. 65 for the prepared statement of Senator Dole.

STATEMENT OF JOHN W. BODE, DEPUTY ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY GEORGE BRALEY, DEPUTY ADMINISTRATOR, SPECIAL NUTRITION PROGRAMS

Mr. BODE. Yes, sir. It was part of the President's January budget request for a $1.2 billion supplemental for the food stamp program.

Senator DOLE. As I understand now, this amount is tied up in a supplemental appropriations bill, which is in some jeopardy of being vetoed.

Are you on Appropriations?

Senator PRYOR. I am not.

Mr. BODE. Yes, sir. Both the House and Senate have included supplemental appropriation funding in their versions of the bill. Of course, until we have the funds actually appropriated and in hand, we cannot distribute them.

At this point we do not have sufficient funds to issue full benefits in the month of August, and that is why we are required under the Food Stamp Act to notify States that we are having some difficulty. We are very confident that the funds will ultimately be appropriated.

We know of your good support of adequate funding for the food stamp program to prevent reductions for those who need the benefits, and we are doing our best to manage the situation in order to prevent any benefit reductions. Yet, we must also stay within the restrictions of the Food Stamp Act and the Anti-Deficiency Act.

Senator DOLE. Well, I am going to suggest to Senator Hatfield today that maybe we should break out the food stamp part of the supplemental and go ahead and pass it as a separate measure. There seems to be no opposition to it.

If we do not resolve this situation soon, we are going to really cause, not only hardship, but a lot of concern from elderly citizens. There is no reason to be concerned. The administration supports the additional funding. I assume there is widespread support in Congress for the additional moneys that are in the budget and in the supplemental. Would you have any objection to breaking it out of the supplemental and passing it independently?

Mr. BODE. I do not call the shots on overall handling of the appropriations bill, sir.

Senator DOLE. I do not either. [Laughter.]

Mr. BODE. I do not even call the shots on administration positions on appropriation bills. It is certainly funding that we have requested and we are very eager to have that funding appropriated. I see no problem with your approach.

Senator DOLE. Well, you may proceed with your statement on the matter at hand.

Mr. BODE. Thank you, Senator. I am pleased to have with me today George Braley. He is Deputy Administrator of special nutrition programs and works a good deal with commodity distribution activities. And with your permission, he will assist me in answering questions.

I will summarize my statement.[1]

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[1] See p. 82 for the prepared statement of Mr. Bode.

Senator DOLE. Good.

Mr. BODE. We appreciate the opportunity to be here to visit with the committee today about commodity distribution activities. Although our recent efforts have been very intensive, the Department has a long history of involvement in commodity distribution, dating back to the days prior to the establishment of the food stamp program, even back to 1933.

Before commenting about food distribution efforts specifically, I would like to point out that commodity distribution is only one part of a large, total effort to meet the food needs of low-income Americans.

The administration is very concerned about the nutritional well-being of those Americans who are unable to provide an adequate diet for themselves without the assistance provided through the Department's various programs.

Knowing of the leadership role of this committee in developing those programs and refining them so they are in the soundest possible condition, I will not go through those, but instead proceed to page 4 and talk about food distribution specifically.

To support and supplement the structure of feeding programs that we have, we have also got a large food distribution network. This year, we will distribute about 2.1 billion pounds of food, valued at more than $1.7 billion, to various outlets, which include schools, charitable institutions, child care centers, elderly nutrition programs, camps, and Indian reservations.

The commodities we provide will be acquired under price support activities and through market interventions to remove surpluses. In addition, some purchases will be made strictly to meet the preferences expressed by school food service officials.

These traditional commodity distribution efforts recently were augmented by the administration's special commodity distribution program, initiated by President Reagan on December 22, 1981, and supported by subsequent appropriations in the jobs bill.

The scope of these efforts must necessarily be bounded by the availability of commodities and by our ability to deliver items to needy individuals without adversely affecting the farmer-to-consumer food chain.

Every food commodity that the Department of Agriculture holds in uncommitted inventories is presently being distributed for household consumption. These commodities are cheese, butter, nonfat dry milk, rice, cornmeal, and honey, and we have also made some flour available.

USDA does acquire a wide variety of fruits, vegetables, meats and poultry through market intervention to remove surpluses. These purchases are largely earmarked for specific donation programs for schools and other outlets, and are supported by specific appropriations.

Clearly, the Department is not sitting on enormous quantities and varieties of foods which some have suggested could quickly and simply be put into the hands of low-income Americans.

We are already acting through the special commodity distribution program and through Public Law 98–8, the jobs bill, to move quantities of commodities into the hands of traditional outlets, including schools and charitable institutions, as well as nontradi-

tional outlets, including soup kitchens and food banks, which in turn distribute them to low-income people for consumption at home.

Another consideration in the expansion of food distribution activities is the health of the farmer-to-consumer food chain. Dairy products are a case in point. The Department's Economic Research Service regularly monitors the dairy marketing and production situation in the United States. It analyzes and reports information on production of cheese and butter and other products, as well as imports, exports and Government activities, including acquisitions and distributions.

Through this analysis, the Department can monitor the amount of cheese which is leaving wholesale channels for commercial uses. We know that over the past several years, cheese consumption of all types in the United States has been increasing significantly.

However, commercial disappearance—that is, an estimate of final sales—of American cheeses has declined over the past two quarters, reversing an upward trend. Commercial sales of American cheeses in the fourth quarter of 1982 declined by 5.1 percent from a year earlier.

In the first quarter of 1983, most significantly, commercial sales declined, from the same period a year earlier by more than 15 percent.

These declines in commercial disappearance coincided with significant increases in the distribution of cheese through the Department's special commodity distribution program.

The CHAIRMAN. John, let me interrupt you here.

Mr. BODE. Yes, sir.

The CHAIRMAN. You are not even talking English when you talk about commercial disappearance.

Mr. BODE. OK.

The CHAIRMAN. I know what you are saying, but what is this really, and what is the relativity between the reduction in commercial sales—I guess that is what you are talking about—and the free cheese, in terms of pounds, tons, or whatever?

Mr. BODE. Senator, we did not see a significant reduction in commercial sales in the first year of the cheese distribution effort. In that year, the distribution was going along pretty well. The distribution levels averaged 12 million pounds per month; they reached a high of about 26 million pounds in December.

Then, beginning in December and at the beginning of this calendar year, they really increased dramatically. That was largely at our urging, frankly, and that is when we started to see significant drops in the levels of commercial sales.

That is when, in the last quarter of last year, we saw the 5-percent reduction in commercial disappearance, which tells us what sales are like. And we saw the 15-percent drop in commercial disappearance, which tells us what sales are like in the first quarter of this year, at the same time the free distribution of cheese increased dramatically.

That is why we chose to stabilize—not suspend, but stabilize—the level of distribution for cheese at a level that was actually about twice as high as what was distributed on average last year, and about the same level as the highest distributions of last year.

The CHAIRMAN. I do not think I made myself clear. Give me a sort of a pound-for-pound ratio. Was the drop in commercial sales equivalent to, more than, or less than the free distribution of cheese—or are there some other factors in the drop of commercial sales?

Mr. BODE. We did not see displacement for the first cheese we were distributing, but once we started distributing a much greater amount, then we saw a big displacement. I believe our economists found almost a pound-for-pound displacement at the higher levels.

The CHAIRMAN. That is what I am getting at.

Senator DOLE. We are going to have a witness later on from the National Cheese Institute.

The CHAIRMAN. Well, as I understand it, the General Accounting Office feels there was displacement even at the lower level of distribution. While these are tentative figures, the GAO feels there is almost a pound-for-pound displacement.

Mr. BODE. Yes, sir.

Senator DOLE. We might be developing a real cheese market out there, too, in the future.

The CHAIRMAN. Yes.

Senator DOLE. In a lot of these stores, you walk in and they give you free samples, and you get hooked on the product. [Laughter.]

Mr. BODE. There are a lot of free samples going out these days.

Senator DOLE. I understand that.

Mr. BODE. We have not had an opportunity to review the General Accounting Office report that Congressman Evans referred to this morning since it was a preliminary briefing he had received. We are very eager to see that, and also look at other developments.

We realize more information is coming in almost by the week and there is more for us to learn about the effects of the distribution. We did see compelling evidence that the high distribution levels that we got into beginning in this calendar year were leading to serious displacement. That is why we stabilized the distribution levels.

The CHAIRMAN. Mr. Chairman, I am sorry for interrupting, but I just wanted to get straight in my mind what he was saying.

Mr. BODE. I apologize for being unduly complex.

The CHAIRMAN. Well, you were being bureaucratic. [Laughter.]

Senator DOLE. Give us the rest of the statement in English.

The CHAIRMAN. That is right.

Mr. BODE. That will be tough for me, sir, but I will try.

Senator Leahy mentioned that this was a suspension of our distribution activities, and I would like to point out that the levels that we are distributing now are as high as——

Senator DOLE. What are they?

Mr. BODE. It is 25 to 35 million pounds; it is stabilizing at 25 million pounds a month. Now, that is about as high as we ever got last year, and it is about twice the average distribution of last year. So, I think the characterization of a suspension of distribution is not appropriate.

Senator DOLE. Did you bring some of your exhibits along?

Mr. BODE. Well, yes, sir. We brought along all the different kinds of commodities that are currently being distributed. Of course, all

of these are not the commodities that are available for household distribution.

Included here are commodities that—that is the cheese, of course.

Senator DOLE. This is the size that is distributed?

Mr. BODE. Is that a 5-pound block?

Senator DOLE. Yes.

Mr. BODE. Yes.

Senator PRYOR. Senator Dole wants to take that home to his wife. [Laughter.]

Senator DOLE. It's probably better than what she has there now. [Laughter.]

Mr. BODE. Senator, I guess I should finish on displacement. Had that been our only concern, we might have stabilized the program at a lower level of distribution, but it was not. We are committed to maintaining the program at a level which provides added food assistance to low-income people during this period of economic readjustment.

At the same time, we have got to be careful not to interfere with the food chain and the dairy price support program. When we have displacement, in effect, the CCC winds up buying the cheese twice.

Consistent with the spirit and, I think, the intent of the jobs bill, Senator, we quickly published regulations and notified the States of commodity availability under the jobs bill. We believe that we are doing an effective job of distributing commodities to households as well as institutions under that authority. States have submitted orders for delivery of all foods which will be available to them.

The administrative funding mechanism we have established under the jobs bill appears to be responsive to State requests. These funds are allocated to the States based on a formula giving primary consideration to the number of low-income people and unemployed persons in the State.

You will recall the Department has consistently held the position that administrative funding of the program is not essential. Prior to enactment of the jobs bill, the Federal Government was paying an average of 97 percent of the total cost of the special dairy program.

State and local distributions were quite active. They increased dramatically—even to the point that in March we were unable to fill all the State requests because we could not get the cheese processed quickly enough. We continue to believe that further administrative funding is not essential to an effective commodity distribution effort.

The Department can and will adequately respond to existing commodity needs within the Secretary's discretionary authority. This is true for both major areas covered by the jobs bill, and we are proud that donations of perishable commodities to charitable institutions grew from $15 million in fiscal year 1982 to an expected $51.3 million in fiscal 1983 under the Secretary's discretionary authority.

Charitable institutions, of course, include soup kitchens and cooperative emergency feeding facilities. Likewise, donations to households grew from $190 million in fiscal 1982 to about $540 million through the first 7 months of fiscal 1983.

We believe, Mr. Chairman, that our record of distributing commodities under discretionary authority is a good one, and surplus commodity stocks through the exercise of existing discretionary authority is working.

We have some charts that I think will help you understand what is taking place. These efforts are a little more complex.

DONATIONS TO CHARITABLE INSTITUTIONS—REGULAR PROGRAM—1982-83

PRICE SUPPORT ITEMS

Cheddar Cheese; Process American Cheese; Mozzarella Cheese; Butter; Nonfat Dry Milk; Honey; Flour; Cornmeal; Corn Grits; Rolled Oats; Rice; Roasted Peanuts; Peanut Butter; Peanut Granules; Macaroni; Spaghetti; Rolled Wheat; Bulgur; Soybean Oil; and Soybean Shortening.

SURPLUS REMOVAL ITEMS

Frozen Whole Turkey; Canned Beef; Frozen Catfish; Frozen Whole Chicken; Egg Mix; Frozen Pitted Cherries; Dried Pitted Prunes; Canned Sweetpotatoes; Dry Edible Beans; Dehydrated Potatoes; Canned Applesauce; Raisins; Canned Grapefruit Juice; and Lemon Juice.

ADDITIONAL DONATIONS AVAILABLE TO CHARITABLE INSTITUTIONS UNDER PUBLC LAW 98-8

SURPLUS REMOVAL ITEMS

Canned Pork; Canned Poultry; Canned Salmon; Canned Tuna; Canned Vegetarian Beans; Canned Peaches; Canned Corn; and Canned Pears.

DONATIONS TO NEEDY HOUSEHOLDS FOR HOME CONSUMPTION UNDER PUBLIC LAW 98-8

[Price support items]

Commodity	Size	Pounds (millions)
Cheese (lb. ctn.)	1, 2, and 5	156
Butter (lb. ctn.)	1	60
Nonfat dry milk (lb. box)	4	25
Flour (lb. bag)	5	15
Rice (lb. pkg.)	2	13
Cornmeal (lb. bag)	5	13
Honey (lb. can)	3	11

These are the commodities that are being provided to charitable institutions now. You see the first list is the price support items; the second is surplus removal items. That is where the Department undertakes section 32 purchases for removal of foods from markets when the markets are in a depressed state.

Senator DOLE. I have been out in California. They have a lot of raisins and prunes out there.

Mr. BODE. Yes, sir. I was at a soup kitchen in New Hampshire a couple of weeks ago where they were making very good use of the raisins. They were using them in meals about every other day. In that case, they were mixing them with peanuts and it was good, nutritious food.

Senator DOLE. Are there substantial quantities of those surplus removal items being distributed?

Mr. BODE. Yes, sir. I was at a soup kitchen yesterday where prunes were being distributed.

Senator DOLE. Do you have a dollar figure for that group?

Mr. BODE. We would be happy to provide you specific dollar amounts for the commodities. What is the dollar amount for that group?

Mr. BRALEY. This would include, I believe, both the surplus removal and price support items, but in 1983, again, through regular programs, not including the emergency aspects of the jobs bill, we expect to distribute about $204 million worth of commodities to charitable institutions. A good portion of that would be the surplus removal items, but some of it would be the price support items.

Mr. BODE. Senator, I believe it is around $62 million this year from the surplus removal items list.

Senator DOLE. Where does the $1.7 billion figure come from?

Mr. BODE. That is the total of commodity distribution activities. That includes the distributions—well, school lunch commodities were included in there. Also, the cheese distribution activities are included.

Senator DOLE. Go ahead, Dave.

Senator PRYOR. I just wanted to ask this one question. Do you have any sort of a figure this morning that you might give us as to what this program would be costing in storage to the Government if we did not have these particular programs in place?

Mr. BODE. I am sorry, Senator. We do not have a number.

Senator PRYOR. That would be a hard figure to come up with, but just sort of a ball park figure.

Mr. BODE. I think George might be able to expand on it a little.

Mr. BRALEY. Yes. Senator, in the past we have looked at the storage costs against the costs of distributing the product, after it is acquired. Again, when displacement comes into play, it changes the equation.

Commodities like cheese and butter that require refrigeration or frozen storage, you can work off the value of the commodity over a shorter period of time. You have to assume you are going to store cheese or butter, I believe, about 6 or 7 years before it becomes wise to give it away.

For a dry product like nonfat dry milk, the storage costs are lower. That time is longer; the storage costs take longer to equal the value of the commodity—the price you pay for it.

Senator PRYOR. Are we anywhere near today saving as much on storage costs by giving this food away as we are by having the storage?

Mr. BODE. No, Senator. I was reminded that the Department is now spending more than $60 million a year on the storage of dairy commodities. Now, of course, simply increasing the distribution of dairy commodities is not going to save money when we wind up buying more to replace what was distributed because of displacement.

So, we feel that there is some savings, though not great, through reduced storage costs when we are distributing commodities that are not resulting in displacement.

Senator PRYOR. All right. Now, in the recent legislation that was passed, I guess, back in February or March—and I assume this was on the jobs bill—$50 million for food distribution went out to the States, is that correct?

Mr. BODE. Yes.

Senator PRYOR. When was that actual money released? When did USDA start releasing that money?

Mr. BODE. Sir, the bill was passed on March 24, as I recall. Our regulations were due out in 30 days and we got them out on April 24. I believe the moneys were going out within a week or two after that. We felt that we did not waste any time.

Senator PRYOR. So you are very, very new into this particular program?

Mr. BODE. Under the jobs bill authorities we are. But I would hasten to add that we are over 18 months into the cheese distribution activities, begun under the President's discretionary authority 1 year ago last December. And we felt it was appropriate to give States discretion on defining who was low income.

In some of the places I have been around the country, they were very pleased that that discretion was given because it has helped them give some food to people who otherwise might not have received it.

Senator PRYOR. All right. In looking at the display that you have up there, the only concern I have is that little bag of rice. It looks like it is just about 2 pounds' worth, and I wonder if you might go to a 20 pound bag or something. [Laughter.]

It looks awful small.

Mr. BODE. Senator, you will be pleased to know the reason that rice bag is small is because rice is one of the items that is available for distribution for household consumption. We also have larger bags of rice for institutional use.

This chart shows the commodities that are being provided for consumption at home, along with the container size and the pounds that we expect to distribute under the jobs bill authorities.

Now, this commodity distribution, a good deal of it, was already being done under discretionary authorities. So, even without an extension of the jobs bill, most of this activity would continue.

Senator PRYOR. Thank you, Mr. Chairman. That is all.

The CHAIRMAN. If I may, let me get back to this pound-for-pound proposition. At what point is it a good situation for the Government? Is it one pound versus two pounds, or what, because at a pound-for-pound displacement level you pay to take it in with one hand and you give it away with the other hand?

This committee has the responsibility of trying to keep the Commodity Credit Corporation solvent as well, so that was the interest I was showing.

Mr. BODE. I understand, Senator. Well, clearly, at the pound-for-pound displacement level, we are simply buying the cheese twice.

The CHAIRMAN. That is the point I am making.

Mr. BODE. That is a raid on the Commodity Credit Corporation funds to subsidize the distribution. I do not have a ratio that is the appropriate break-even point, in our view.

We will acknowledge that we are pushing the distribution to a level that is high in terms of displacement. We felt that was appropriate after we had gotten this activity started, and not only had low-income people come to expect some commodity distributions, but States such as Iowa were set up and moving on it.

The CHAIRMAN. All right. Now, let me be clear about this. Who decides the criteria for eligibility for free cheese?

Mr. BODE. Sir, the States make that determination.

The CHAIRMAN. OK. Now, early on there were a number of States, including my State of North Carolina, who said anybody 60 years old, no matter how many Cadillacs they owned or whatever, can drive down there and get free cheese.

Were there other States in addition to North Carolina?

Mr. BODE. Yes, sir.

The CHAIRMAN. How many?

Mr. BODE. I can call to mind Florida had a similar approach. We heard earlier today that California did. I know that Oklahoma, my home State, did. We are seeing those States move away from that approach now.

The CHAIRMAN. You anticipated my next question. They are moving away from it, but they are not away from it, all of them?

Mr. BRALEY. Many are, but others are reviewing their criteria right now.

Mr. BODE. Not all of them have discontinued that, sir.

The CHAIRMAN. Well, you know, the problem——

Senator DOLE. There are a lot of little hanky-pankies going on.

The CHAIRMAN. Oh, yes. You know, Bob, this creates a cynicism for what is intended to be a compassionate program. I recall that a paper in Harnett County, N.C., ran a front page picture some months back of some people taking cheese. As I recall the picture, there were three people going to a Cadillac automobile.

They had, as a matter of fact, two pictures; they had the license plate number, and so forth. And this obviously created a lot of cynicism for all the readers of that newspaper, particularly those who do not get free cheese.

But you feel that the eligibility criteria are being tightened by the States now?

Mr. BODE. Yes, sir.

The CHAIRMAN. It is not just a handout.

Mr. BODE. Now that allocations have been set and they no longer have available to them all that they would ever ask for or be able to hand out, they are setting more serious eligibility guidelines and we are seeing some income test applied for the elderly group as well.

The CHAIRMAN. I know of no Member of the Senate who is in favor of not helping the truly needy, but there are many of us, and maybe all of us, who do not want these programs to be abused.

The trouble about a lot of the media coverage on this sort of thing is, well, to use Will Rogers' expression, the trouble with a lot of folks is they know so much that is not so.

But I am glad to hear that you are tightening up on it because the whole program could be put in jeopardy if it is not tightened up.

Mr. Chairman, if I might, I would like to include a statement for the record.[1]

Senator DOLE. Yes, it will be made a part of the record.

The CHAIRMAN. I would appreciate that.

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[1] See p. 63 for the prepared statement of Senator Helms.

Senator DOLE. Well, I would just underscore what the chairman has indicated. I have some clippings here. I happened to be in Seattle several weeks ago, and this appeared in the newspapers there. They arrested one guy for diverting and trying to sell 139 cases of surplus cheese, and this practice has been repeated in a number of areas of the country. We are going to have a Seattle witness later.

This happens; whenever you have a large program, someone is going to take advantage of it eventually. Plus, I think there were some examples—and we will hear others today—of places where the cheese was not going to the needy, or, at least, as Senator Helms indicated, some in the greedy category were getting the cheese instead.

Have you been making an effort to tighten upon this practice?

Mr. BODE. Yes, Senator. We are aware that there has been a problem. In isolated cases, there have been some very serious problems. Not only have the allocations led States to establish meaningful eligibility criteria, but also we are following up with better recordkeeping to be sure that the sale of large quantities and that sort of problem cannot take place.

I wish that I could assure you that what we are doing now will prevent any abuse of this program. I am afraid, though, that it has been my experience that when we are engaged in activities of trying to help people and provide assistance, there are invariably a few around who will try to abuse it. And there is almost no way to provide a foolproof system without being onerous for everyone else.

Senator DOLE. That happens in Congress as well.

The CHAIRMAN. Well, the USDA has gotten some bum raps in the media about this program. I know in North Carolina there were many reports that the USDA had clamped down and was not providing enough cheese, or any cheese at all in some cases.

We looked into it, Bob, and found out that it was the State of North Carolina and not the USDA that was not providing the commodities. Now, have you had other States——

Mr. BODE. Yes, sir.

The CHAIRMAN. Montana, I understand.

Mr. BODE. Well, I am afraid I am not familiar with all the details of the Montana situation. But the States determine which institutions are eligible to receive the commodities.

Now, Senator Melcher referred, I believe before you came, Senator, to some elderly institutions that were not getting cheese. That was a surprise to me because as I understand the institutions he was talking about, they are certainly eligible, in our view, and I can imagine no reason why the State would not be allowing those institutions to receive cheese.

I think we have been pretty timely under the discretionary authority even last year. States were provided cheese and butter within 45 days of their request for it, and it was a regular system. They would place their requests and we would deliver it to a point they indicated within 45 days. Thirty days is the general rule, with the exception of the time when we got requests for more than we could possibly process.

Senator DOLE. What you are saying is that in many cases it is the failure of the States to act rather than the Federal Government?

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Mr. BODE. Well, as far as eligibility of specific institutions, I guess I would point my finger at them.

The CHAIRMAN. Well, in the case of North Carolina they decided not to use the food banks, is that right, and to go with the public agencies; and so forth?

Mr. BODE. Yes.

The CHAIRMAN. Given the amount of commodities that can be distributed without it having an adverse impact on retail sales and the Commodity Credit Corporation, can that level be distributed without providing additional Federal funding for distribution costs of the participating organizations?

Mr. BODE. I certainly think so, Senator. We have had distributions at that level last year and over twice that level at the peak this year without administrative funding. So we do not think that administrative funding is necessary to distribute the commodities in an effective way.

The CHAIRMAN. Thank you.

Senator DOLE. You have finished your statement; have you not?

Mr. BODE. Yes, sir.

Senator DOLE. Senator Pryor, do you have additional questions for Mr. Bode?

Senator PRYOR. Not at this time.

Senator DOLE. I just want to ask one. You know, this program expires September 30 of this year?

Mr. BODE. Yes, sir.

Senator DOLE. Do you see any need to extend it, or do you have any recommendations on its extension, expansion, curtailment, or whatever?

Mr. BODE. Senator, we are ready to distribute under discretionary authority without the extension of this legislation the commodities that we have in surplus stocks, which is basically what the jobs bill directed us to do.

The only other thing the jobs bill did was provide administrative funding, and we feel that is not really essential for the distribution of commodities. And it, being an appropriations bill, provided some funds for special purchases.

Senator DOLE. What about the Panetta-Emerson bill which passed the House? How does that differ from your present authority? I mean, does it give you additional authority that you need, or how would you describe it?

Mr. BODE. No. We certainly do not think it is additional authority we need, Senator. It has some provisions that cause us a lot of concern. Here again, we do not feel the administrative funding is essential, and we were surprised that the bill even provides administrative funding for traditional outlets of commodities.

Schools, for example, would begin to receive administrative funding for the bonus commodities they receive. They have been receiving bonus commodities for years and have never demonstrated any need for administrative funding along that line.

Otherwise, it is much in the same category of what I referred to before.

Senator DOLE. Well, what you are saying, in effect, is that even though the law may expire on September 30, the program will continue without change?

Mr. BODE. Yes, sir. We will continue the distribution of these commodities, as we indicated. Now, I suppose I should add that as surplus conditions change, that could also affect the list of commodities that are distributed.

Senator DOLE. Right. I do not believe there is any desire on the part of Congress to have farmers start producing just for food distribution purposes. We still have our food stamp program; in other words, if that is a problem, then people can buy the cheese with the food stamps.

Mr. BODE. We certainly continue to view the food stamp program as the first line of defense against hunger in America, and it is that $12 billion program that in a very regular way is providing benefits to everyone who is low income who applies for it.

Senator DOLE. And the administration is committed to that program, I understand.

Mr. BODE. Yes, sir.

Senator DOLE. Will you be available while we hear other witnesses in case Senator Pryor or I have additional questions?

Mr. BODE. I would be happy to be.

Senator PRYOR. Just one tidbit.

Senator DOLE. Sure.

Senator PRYOR. Mr. Palmer from Iowa just a few moments ago testified as to the large number of varying programs on distribution of commodities. I think he said in Iowa there were some 13 separate distribution programs, or 12; I am not certain.

Mr. BODE. Yes, sir, I believe he said 13. Some of the programs that we have that commodities are distributed through are the national school lunch program, child care feeding programs, the summer food service program. There is a needy family commodity distribution for Indian households; the commodity supplemental food program, which does have a site in Iowa, I know, in Des Moines.

There are commodities distributed through emergencies and disasters. The elderly feeding sites—some States have assistance in the form of commodities. I do not know offhand whether Iowa is one of them.

Of course, we distribute commodities, as we have discussed, to charitable institutions, such as soup kitchens and needy households, through the food banks. I suspect there are others.

Senator PRYOR. All of these programs are in addition to, I think, the $50 million program that we passed that would go through FEMA and ultimately to the United Way charities, is that correct?

Mr. BODE. Yes, sir.

Senator PRYOR. All these are in addition to that.

Are we headed to the point here where the distribution of food is getting to be such a large item and so complex—are we going to need one particular agency of Government to become, say, the food distribution czar?

Here, we are running 13 or 14 separate programs. I do not know how you ever coordinate all those programs.

Mr. BODE. I certainly hope not, Senator. All of these activities are now coordinated in one part of the Food and Nutrition Service; that is the part which Mr. Braley manages. I see no need to expand

the bureaucracy we have to deal with the commodity distribution activities.

Senator PRYOR. Mr. Braley has his work cut out for him——

Mr. BODE. He seems to have his hands full.

Senator PRYOR [continuing]. To prevent those Cadillacs that Senator Helms was talking about from picking up food. By the way, those Cadillacs—you do not see that in Arkansas unless they come in there from Kansas or Oklahoma. We might have a few, but Arkansans do not own any Cadillacs.

Senator DOLE. We only have one and it is in use most of the time. [Laughter.]

The CHAIRMAN. You mean Lou Holtz does not have a Cadillac?

Senator PRYOR. I do not think he does. He may have one. I bet he could get one if he wanted one, but I do not think he has one.

The CHAIRMAN. He is the 800-pound gorilla; he gets what he wants.

Senator PRYOR. That is right.

Senator DOLE. Well, Mr. Bode, we thank you. If you will stand by, we may need you.

Now, at least I am very pleased, and I know we are all pleased, to greet the next panel: Mrs. Jo Ann Elliott from the Prescott Neighborhood Association in Kansas City, Kans.; and Rick Stack, from the Capital Area Community Food Bank.

Your statement will be made a part of the record. Jo Ann, I am very pleased to have you here, and I thank you again for the personal visit we had when I was in Kansas City. At the time I visited, you were having difficulty getting commodities; the law was just barely in existence then.

I think perhaps your testimony will be very valuable, as will Mr. Stack's. We do not want to cut off any witnesses, but we do have a number of them. Just proceed in any way you wish.

STATEMENT OF JO ANN ELLIOTT, PRESIDENT, PRESCOTT NEIGHBORHOOD ASSOCIATION, KANSAS CITY, KANS.

Ms. ELLIOTT. Do you want me to read this statement?[1]

Senator DOLE. Well, you are pretty good at just——

Ms. ELLIOTT. Extemporaneous?

Senator DOLE. Yes.

Ms. ELLIOTT. I kind of like to be extemporaneous.

When he came to where I am at the old firehouse, I said "We know about you; we read about you in the paper. You sit down and listen to us."

Senator DOLE. That is right.

Ms. ELLIOTT. And we told him what was what and what we were doing in Kansas, and it was really good. We got our voice in; we must have.

Senator DOLE. That is right.

Ms. ELLIOTT. This might just be a meeting to everyone else, but this is one of the most important days of my life to be here in Washington to see how things work and to be part of what is working.

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[1] See p. 89 for the prepared statement of Ms. Elliott.

Commodity distribution is working in Wyandotte County due to a great big core of volunteers. We began working with commodities not knowing what we were doing. We all formed a coalition of providers. The big agencies dropped away because where was no money for the program.

We like it the way it is. We would rather not have that money. We would rather distribute through our private agencies, through our churches, through the people doing it themselves, for themselves.

We have a good system in Wyandotte County and we want to keep it that way. By cutting back milk, one truckload for the county for the year is not enough for what we do. We need more commodities and we do not need to worry about the money part of it; we can get it and do that ourselves.

I did not quite understand this displacement of cheese. The people we are giving cheese to are not eating cheese normally. You are replacing bread and sugar, and I know because I see the kids fight over it.

We should have really helped the macaroni industry with all that cheese. We have started eating a lot more macaroni and cheese. Nachos are very popular in our part of the country. We have a high Hispanic population; they eat a lot of cheese there.

But I cannot see us replacing that much cheese. I have gone to the grocery stores—all the grocery stores that are in our community. They have not noticed that much difference; maybe a little bit on hot dogs or peanut butter, because that is what cheese is replacing—what they have already been eating. They have not had this kind of cheese.

This kind of cheese—I do not know if you can buy it. We have had the phony stuff; it is not made out of milk, I do not think. I do not know what it is. It is that cheese spread, or whatever it is. It is very cheap. It is less than $1 a pound, and that is the kind they would have eaten. This is nutritionally better.

That is enough. We just want more commodities and not much money. Thank you.

Senator DOLE. Before we proceed to Mr. Stack, I would like to ask you one question: What about the administration of the program? You were having some difficulties when I was there. You said they were getting certain commodities across the river in Missouri that we were not getting in Kansas, and that touched a nerve, of course.

Ms. ELLIOTT. Of course. Missouri was used as a test State, I guess, through the Bureau of Indian Affairs or some such thing, and they had quite a distribution program. They had long lines of people; we have never had a line in Kansas, no lines at all. We distribute better than that.

But they were getting so many other commodities as a test ground. We are starting to get the other commodities. In fact, the 1st of August, we are slated to get rice, honey, and more butter.

Senator DOLE. What are you getting now?

Ms. ELLIOTT. Butter and cheese.

Senator DOLE. Just the two?

Ms. ELLIOTT. Yes, but we are slated to get more, like I said, the 1st of August; we are slated to, but like one load for the year.

Senator DOLE. Are you getting enough cheese to meet your needs?

Ms. ELLIOTT. Enough cheese to meet our needs and enough butter to meet our needs.

Senator DOLE. And you are making certain it goes to the people who need it?

Ms. ELLIOTT. I have never seen anybody walk in the door after it that did not need it. I kind of disagree a little bit with those old people. We have a little problem with the senior citizens. They are greedy. [Laughter.]

They cannot use 5 pounds of cheese a month; no way can they use it. But they take it because it is for them, and they put it in the refrigerator and they take it again the next time.

So we are having a little problem especially with those in the high-rise; they wander from place to place and sign up for it. And then when you call them to come and get it, they might get three of them in a month, so we have really had to watch that.

We at Prescott have worked on a system of checking everyone out. We have a crossfile of everyone in Wyandotte County that is eligible and we just pull them all the time. But the old people do not need it as much as those young families. Even if they are working, they are the working poor and they need help, and that is who I would speak strongly for.

Senator DOLE. And that is whom you are primarily trying to help, is it not?

Ms. ELLIOTT. Yes, the young people.

Senator DOLE. The working poor?

Ms. ELLIOTT. The working poor, yes. We have 11 people in our area on welfare and we are 55 percent below the poverty level. The mailman is the one who told me there were 11 getting welfare checks. I would not have known it.

Senator DOLE. Is he getting any cheese? [Laughter.]

Mr. Stack?

STATEMENT OF RICHARD STACK, EXECUTIVE DIRECTOR, CAPITAL AREA COMMUNITY FOOD BANK

Mr. STACK. Good morning. My name is Rick Stack. I am the executive director of the Capital Area Community Food Bank, which is the Second Harvest certified food bank serving the Metropolitan Washington area.

This morning, I am something of a last minute pinch-hitter for Debora Oswalt, who could not be with us this morning. She works in Richmond with the Virginia Poverty Law Center, and as a member of the board of directors of Second Harvest, she chairs the Second Harvest USDA commodities committee.

I say this up front for two reasons. First, I apologize for not having written comments for you.

Senator DOLE. That is fine.

Mr. STACK. Second, if there are questions later on that I cannot answer, I am going to defer to Second Harvest and we will get those responses to you in writing later.

Second Harvest food banks distributed 39 million pounds of USDA cheese—that is roughly about 30 percent of the cheese han-

dled—through local emergency food providers in 1982. The Second Harvest network, now 57 members strong, is one of the few national nonprofit organizations specifically established to distribute food to charities that feed the poor.

The network's primary function is to work with the American food industry to reduce waste by distributing donated products to the member food banks. In 1982, 70 million pounds of food donated from the private sector were channeled to over 8,500 charities by the Second Harvest network. This is not including the 39 million pounds of USDA product. These figures are double the network's efforts of 1981.

One of the issues I have been asked to address this morning is the implementation of the jobs bill, which is a little bit difficult to get a handle on because so many places are still in the process of negotiating and arranging terms.

But through a couple of surveys that Second Harvest has undertaken, a few problems have come to the fore. One of them is the matter of reimbursement. Reimbursement to local agencies for distribution has been severely limited, which could cause nonprofits who are strapped for cash to cease participating in the distribution.

This is not your program in Kansas City, Kans., perhaps, but a number of organizations throughout the country are finding it difficult to distribute the cheese without some sort of reimbursement. This limitation of funds is, in part, encouraged by the regulations themselves, and here I specifically refer to section 251.3(g) of the Code of Federal Regulations published April 26, 1983.

Specifically, subsection 3(g) defines storage and distribution costs to mean direct costs incurred by an emergency feeding organization or by a State for intrastate storage and transportation of any title I or II commodity donated for use by an emergency feeding organization.

This definition could create a situation in which a State could gobble up all the available intrastate storage and transportation costs, leaving nothing for agencies' actual distribution expenses.

A second limiting factor is the State agencies themselves. As I mentioned, Debora Oswalt is the chairman of the Second Harvest commodities committees, and as such she attended a couple weeks back in Buffalo, N.Y., the annual conference of the State distributing agency directors.

After making her presentation, Ms. Oswalt talked to a good number of the directors individually. In addition, she has been getting phone calls from food banks in various States. And from both of these sources, it seems that the States are holding on to as much money as possible and, as I mentioned earlier, the regulations sort of encourage that.

The State directors seem reluctant, not very receptive to the idea of passing on this money to the local agencies. In fact, a number of the directors told Debbie outright that they were going to hold on to as much money as possible. One even asked her if the director could be sued if she did not give the money to the local agencies. So, I think this is indicative of some of the mentality at the State level.

Another problem that the Second Harvest network sees is the method of determining reimbursement. To the members of the net-

work, it seems a little illogical to tie reimbursement to the value of the food rather than the cost of distributing it.

To elaborate a little bit, most food banks can operate on a margin of about 10 cents per pound, and this includes transportation, storage and handling. However, the rate of reimbursement set by the regulations is 5 percent of the fair market value, which, in the case of items like cornmeal, flour, rice, and honey, averages just under 1½ cents a pound. So, you can see a rather wide gap there between what is authorized and what is needed.

One other problem is that the quantities of commodities available for distribution have also been curtailed. For all the products other than cheese and butter, there is not even enough to give one package to each food stamp household.

Some suggestions along these lines: a reimbursement formula should be developed that relates to the cost of distribution rather than the value of the food. An amount per pound or an amount per case, for example, might be more fair.

It should also be made very clear that an amount is provided specifically for reimbursing local agencies for distribution costs; not just intrastate storage and transportation costs which usually go to the State entities, but for actual distribution from local nonprofits to the needy individuals.

Reimbursement is sorely needed in most States. Second Harvest surveys show that in many areas groups stop distributing due either to a lack of funds or to a situation where dollars budgeted for other services and expenditures had to be sacrificed. An increasing number of organizations are refusing to participate if some sort of reimbursement is not forthcoming.

Second, more of the nondairy commodities should be provided. At this point, I would like to take a different tack, something unusual, and praise USDA for following a couple of suggestions that were made earlier, and one is the packaging of the commodities in household sizes is very important and very meaningful. And Second Harvest is very pleased with that and we hope that will continue.

Third, the maintaining of minimal redtape and paperwork requirements is much appreciated by those local agencies that are administering these programs.

Additional suggestions: first, uniform eligibility criteria should be developed. I underscore that which was said earlier. These might include any recipient of unemployment or public assistance benefits, such as AFDC, food stamps, SSI, medicaid, State general relief, fuel assistance or public housing.

Second, Second Harvest believes that the Secretary should be required to publish estimates of commodities available for distribution for each of the next 2 years—I believe, Senator, this was in your original bill—2 years hence, so that States and localities can plan cost effective, efficient distribution.

Third, specific language should be included that assures that individual public benefits will not be decreased by the value of commodities an individual receives. This is a very important point.

Fourth, the Secretary should be required to make commodities available. We believe that discretion is not enough. He has had discretion for a long period of time and has not utilized it, and as a

result we now have more than 731 million pounds of cheese alone in storage.

Finally, legislation must reflect a clear intent that the distribution of commodities is but temporary and supplemental in nature and in no way is meant to replace or even reduce current Federal food programs.

In summary, Second Harvest commends the release of surplus commodities for domestic distribution to hungry people. The suggestions offered this morning should help this program function more smoothly than the mass distributions of the past 19 months.

We must all recognize, however, that this program will be counterproductive to the Nation's hungry without strong, viable Federal food programs.

Senator DOLE. Let me ask the Department to comment on your statement that local food banks are not being properly reimbursed.

Why don't you just sit here, John? We can make a complete record this way.

Mr. BODE. OK. It is my recollection that the jobs bill requires that 20 percent of the administrative costs appropriated—20 percent of that $50 million—be passed through to local agencies.

Our regulations also include that requirement, so at least 20 percent of the administrative funds have to be passed through to the local agencies.

Mr. STACK. I am commenting basically on the program up to the point of the jobs bill. At this point, we have not had too much feedback of the implementation of that jobs bill. I do not know if that money is going to get waylaid at the State level or not.

Mr. BODE. I see. I was referring to the jobs bill because those are the regulations that you were reading from, and the jobs bill regulations require that 20 percent of the administrative funding be passed through to the local agencies.

Senator DOLE. It will be helpful once it gets started.

Mr. STACK. We hope so. The attitude that Ms. Oswalt perceived at that State agency director meeting did not seem that they were too eager to want to cooperate on that point.

Mr. BODE. We will be sure that the States cooperate along that line.

Mr. STACK. OK. I did want to bring that to your attention.

Senator DOLE. Jo Ann, as I understand your statement, which I have read, you would rather have more commodities and you can handle the——

Ms. ELLIOTT. That is right. Let me tell you one thing we did. We knew we needed a coordinator in Wyandotte County; we needed somebody to get all of our orders in, sort them out, and make the orders, and so forth.

We went to the Presbyterians and they gave us $4,800 to pay for someone for 4 months until we could find what we could do. Then we went to the Mennonites and we got two people for 1 year for the same amount of money. [Laughter.]

Mennonite social services does this kind of thing. So, for that grant of $4,800, we had two people to coordinate for 1 year.

I say that we need to hunt our own resources. They are there somewhere. The churches have just really gotten into this pro-

gram; they are really working hard at it. They can handle their own expenses.

Senator DOLE. It seems to many of us that if, in fact, there is food available for distribution, and there are not enough people in the community of goodwill to make the distribution—although I am certain there are—then we have a real problem in this country.

Ms. ELLIOTT. That is right.

Senator DOLE. Then we start creating another bureaucracy to distribute the food. That is where the money is going to end up. There will not be any food—it will all be going for salaries for people to distribute the food.

Ms. ELLIOTT. That is what we are afraid of.

Senator DOLE. And the poor people will get to look at their salaries.

Ms. ELLIOTT. I like the bureaucracy and the fact that without it, we would not have anything. There is a system and there is a method, and so forth. We can copy that without money. We can copy the fact that we do have to check people out. You cannot just hand food out to anyone that walks in the door. So, we can devise our own system.

We are producing cards that are qualifying cards and they all go through this Wyandotte County emergency assistance coalition, where we can go from one agency to the other and find out what is available.

By organizing ourselves to do this for ourselves—I know that if more money comes in, we will lose; we will lose the fact that it is our program and that we can handle it. That is what we are afraid of.

Senator DOLE. How long have you had your center in existence?

Ms. ELLIOTT. Seven years.

Senator DOLE. And it has been an effort to rehabilitate the whole neighborhood, right?

Ms. ELLIOTT. Yes; it has been, and our center has been there for 7 years. This commodity program is a very small portion of it. Our major emphasis is on youth programs and drug and alcohol deterrent programs. The major thing we do is fight drugs and alcohol with the inner-city kids. But by doing that, we involve the senior citizens, the kids, everyone.

You were there and you saw this center that is over 500 people a week using it some way or another. It has no writing on the wall, no broken windows, any of those kinds of things that you would associate with an inner city. It is because we handle it ourselves, and I think we need to do that more and more everywhere. We are no different than anyone else. We were poorer maybe; that was all.

Mr. STACK. I agree with the idea of local autonomy; I think that is extremely important. However, a lot of the localities and municipalities that responded to the Second Harvest survey were able to get a rush of voluntarism early on. But when either the consistency at the State level began to fall apart or the amount of commodities was inconsistent with what a group could handle, the volunteers seemed to shy away after the initial time or two.

That is a problem that in Wyandotte County you may not be facing, but other communities around the country are and they

need to see that sort of commitment from the Government to match that commitment at the local level.

Senator DOLE. Maybe they need to see the sort of commitment they have in Wyandotte County.

Mr. STACK. That could be.

Senator DOLE. It is not always the Government that has the commitment.

Ms. ELLIOTT. That Government had better be committed to us. We go to the State. If the State would not come through with something, we would be up there in Topeka on the doorstep.

We have what we call Harvesters, which is almost the same thing.

Mr. STACK. It is.

Ms. ELLIOTT. It is very good. It helps with our emergency food programs, and so forth, and we have soup kitchens all manned by volunteers. There is no one paid anywhere in any of this stuff that I know of.

Now, Harvesters does; it is in Kansas City, Mo. But we use that; all of our agencies use it. But I think that you have to get an attitude first, thinking "how can we do it ourselves?" I have people myself that come and say I am crazy, but that does not matter. [Laughter.]

Senator DOLE. They say that you are crazy?

Ms. ELLIOTT. Yes, yes, thinking that we can do something. I will say, "Well, we can do that." Even the old firehouse—they were going to tear it down and they did not tear it down. We rebuilt it and we have a place to gather. A lot of people say they do not have a place. They are there; all you have to do is look around. I am not against money; I just learned how to live without it.

Senator DOLE. What is your budget, $2,300?

Ms. ELLIOTT. $2,300. Our budget is whatever we raise this year. We have 1 day a year where we raise money, and that is the biggest we ever raised, $2,300. Like I say, over 500 people a week use the center. We have program after program.

Some programs cost a dollar, like some of our kids' classes and stuff, to provide an instructor and materials. We have preschool for like 30 preschool children. It is free; they just have to put time into it. We have learned to do it.

Senator DOLE. Well, I appreciate the testimony from both of you very much; it is very helpful. We have Mr. Bode here if you have any other——

Ms. ELLIOTT. I would like to invite you to come see us distribute cheese.

Mr. BODE. I would like to do that.

Ms. ELLIOTT. They are distributing butter today.

Senator DOLE. Do you get these little 2-pound——

Ms. ELLIOTT. No. That is cheddar; I never saw cheddar. All we get is the American cheese.

Senator DOLE. You had better take a good look at this. [Laughter.]

Ms. ELLIOTT. I am looking at it all. That looks pretty good.

Mr. BODE. Senator, the cheddar we have is held in large blocks. When we had trouble getting it processed quickly enough for distri-

bution, some States, like Iowa, processed the cheddar that we provided them—and sometimes they simply cut it for distribution.

We generally distribute processed cheese because it is easier to handle. It is much more stable in storage.

Ms. ELLIOTT. We get that; it comes 30 pounds to a box. They allow us to—Mr. Wan with our welfare department allows us to cut that cheese at the site because, like I say, little old ladies do not need 5 pounds of cheese.

So, we were not allowed to cut it in the beginning, but we requested that because ours is on a system. We have a block captain. A block captain has the people on their block that are qualified. The block captain picks up their cheese, delivers it, and brings back the signed affidavit. It just moves like that; in 2 hours, we can distribute our neighborhood.

Senator DOLE. Thank you very much.

We next have a panel of two witnesses to bring us another kind of insight into the program: Dr. Beverly Gabrio and Robert Dippre. We are happy to have you here, and I might say that your entire statements will be made a part of the record. You can read the statement or summarize the statement, and Mr. Bode will be here if you have any questions.

We are trying to get information. We are not trying to have a structured hearing where everything appears in order. We are trying to find out if the commodity program works, how it may need improvement, and if there is any abuse of the program.

STATEMENT OF DR. BEVERLY GABRIO, CHAIRMAN, BOARD OF DIRECTORS, FOOD OVERSIGHT OPERATION DISTRIBUTION, SEATTLE, WASH.

Dr. GABRIO. I guess I am what you might call a grass root. My name is Dr. Beverly Gabrio and I do appreciate the opportunity to testify at this hearing today. I am from Seattle, Wash., and am the chair of the board of directors of Food Oversight Operation Distribution, with an acronym of "FOOD."

We are a private, not-for-profit corporation that primarily solicits, transports, warehouses, and distributes to Seattle-King County food banks and feeding programs large quantities of food donated by the private sector. We are also a member of the national Second Harvest network.

In addition, we have coordinated the distribution of the Federal surplus food commodities in the State of Washington since January 1982. We were one of the pilot projects in the program.

During 1983, Food Oversight will operate with a cash budget of $165,000, which will generate over $39 million worth of privately donated and Federal surplus food.

We have been in operation since early 1980 in response to data from 1979 which showed 22,000 persons per month using the food banks in Seattle-King County area, with projections of even greater use in the future. Indeed, in 1980, 40,000 persons per month were served by the food banks; in 1981, 67,500 persons per month; in 1982, 155,000 persons per month. And from January through May of this year, our 40 food banks have seen over 200,000 persons per month in the metropolitan area of Seattle-King County.

We have 300 food banks statewide in the State of Washington. There has been a dramatic increase in the use of food banks in our area, and we do not see any appreciable betterment of this situation in the future.

The economy in the State of Washington has worsened over the past few years, which I am sure you are well aware of if you read the newspapers. Bankruptcies and delinquent home loans have increased many-fold, and our unemployment rate is now 11.2 percent statewide, but includes specific areas such as Ferry County with 20.1 percent, Pend Oreille County with 23.5 percent, and others that could be cited.

This has, of course, a considerable impact on our tax base. Other major contributing factors to the escalation of food bank use are insufficient low-cost housing, high energy and medical expenses, significant Federal, State, and local cutbacks in social and health services and income assistance.

Furthermore, Washington State has the third largest refugee population in the country and the number of refugees is increasing. Their use of food banks has grown since the Federal Government has discontinued their entitlement programs. We also see an increase in the number of elderly food bank users.

Economic, social, and health indicators in Washington State portend a continued and perhaps escalated use of food banks and feeding programs over the next 2 years and an urgent need for more food.

Our agency, Food Oversight, our Governor's Advisory Council on Food Assistance, and the State of Washington are very supportive of a Federal Government effort to supply food to our hungry population.

During 1982, Food Oversight acted on behalf of the State as statewide coordinator for the distribution of 12.5 million pounds of cheese, butter, and dried milk. These commodities were released by the Department of Agriculture, as you know. From January through May 1983, we have distributed an additional 8.8 million pounds of cheese and butter.

Our system works very briefly in the following way. We have set up 18 distribution centers throughout the State. We have the commodities delivered directly to those distribution centers. There are food banks in the catchment area of each distribution center, and the food goes from that center to the food banks, thereby covering the 300 food banks in the State.

This whole food network operates largely with an outstanding volunteer program. In 1982, about 700,000 volunteer hours were donated and an equivalent staff would have cost about $7 million.

I believe that the record for the distribution of Federal surplus food in our State is remarkable. While we deplore the infrequent thefts that are reported and the occasional misappropriations, the order of magnitude of these occurrences is small.

For example, the one that you cited in the newspaper indeed was 4,000 pounds of cheese that this man who was on the board of a community action council and was a poverty person himself had managed to stash away. He was suspected and he tried to sell this cheese to an undercover agent and was apprehended.

The fact is that it was 4,000 pounds of cheese, and this was the only reported large theft that we have had in 1982, or up to the present time, that I am aware of. And during this period of time, in 1982, we have given 20.5 million pounds of Federal surplus food, so we are talking about 4,000 pounds in relationship to 20.5 million pounds of surplus food commodities.

You know, we have everybody sign a self-declaration of low income when they come in. I think if you get into the determination of income eligibility, you can set up a bureaucratic system that is going to cost you $200 million a year throughout the Nation to try to determine eligibility.

Look at the welfare system and the problem they are having in their error rates because people give false addresses, they give false information. If you have a fraud squad to check all of this to determine eligibility, you are going to set up a system that is not going to be worth it for these Federal food surplus commodities.

So, when you go into determination of something like this, please keep this in mind. If you get it too complicated, it is not going to work, which leads me back to this volunteer program in our State which is really fantastic. We could not do without it.

There are very few staff people involved in this whole effort in Washington State and, you know, there are difficulties with volunteer programs.

We certainly do support the current commodity distribution program enacted under the recent jobs bill. It is effective in that it continues to supply food, especially protein, to the hungry.

In addition, it contains important provisions for the use of 5 percent of some of the funds for other purposes such as storage, transportation, mailing, and personnel. And this is particularly significant in our State where there are certainly no extra moneys at this time.

There must be some administration of this food program. A volunteer network is functional at an optimum level only if there is at least some staff support. Currently, the surplus food program can be characterized as possibly undermanaged. Accountability and recordkeeping and the means to carry them out are mandatory. The 5 percent allocation is good, and our State is indeed passing this on to the individual food banks and feeding programs, but it is not an overwhelming figure.

Some problems that have been encountered in the recent jobs bill food program are, one, the dollars assigned in one section of the bill for food purchase, and I believe this is under the emergency food assistance and this is the $50 million through the national private, nonprofit board; the other $50 million through the States.

There is money there for food purchase, but according to my understanding in our State, there is no allowable cost for administrative, storage, or transportation costs. I do not know whether this is correct or not, but we have been given money to buy discounted food, which is fine, to make up deficiencies in what people in the feeding programs and food banks get through the other groups.

But it seems to me as if we could generate considerably more in privately donated food from the business community throughout the country with that as administrative funds rather than just purchasing food.

Two, many shipments of the surplus food are certainly not well orchestrated. A commodity is promised in a certain quantity on a certain date and time, but arrives in a different quantity early or late. There is a pebble effect when this happens that involves warehousing, personnel, food bank hours, and client expectation, and it sometimes is a considerable problem for us.

We order, for example, two semiloads. They say they are going to send us one and they send us three. Now, if you have an extra semiload at a small site for warehousing, and so forth, and especially if it happens to be cheddar cheese which you have to refrigerate, you run into an immediate problem and the pebble effect is absolutely enormous. I would hope that they would look into that situation.

Three, there are unexplained cutbacks in the surplus food, such as butter, and I am sure it is more than just the displacement because in our State I am told that the displacement phenomenon was not so great.

Also, we have been told recently that our cheese allotments will be severely reduced in August and September. Congressman Sid Morrison has told me that he received a petition from one of his counties in his district with 4,329 signatures, questioning the drastic cutbacks this summer in some of the food commodities despite promises of continuing shipments.

The high unemployment rate of 17.9 percent in this particular county is compounded by the fact that 15,000 migrant workers will descend upon their area this summer. I am going to talk with Congressman Morrison this afternoon about this.

Four, we have received moldy cheddar cheese due to incompletely sealed packages or some other problem at the storage level or processing plant.

Five, another problem: small-quantity items, such as recent shipments of cornmeal and rice, do present a problem. By the time there is equitable distribution of these items to food banks, there is only enough for the first few people in each food bank line, and that is a real problem.

In addition if, we say we will only distribute to 10 food banks and not to another 10 food banks, this presents also a severe problem.

We suggest that the current program can be improved by, one, allocating funds on a regular basis for administrative, storage, and transportation expenses. Sporadic funding is a problem if you have to pay for storage, especially if it is refrigerated storage. It is sometimes hard to suddenly mobilize refrigerated storage because there will be 5 percent reimbursement for storage when the cheese arrives and after you spend the money. Many food banks and distribution centers do not have upfront money.

Two, we suggest monitoring the stored surplus food and the processing plants to avoid shipping spoiled products.

Three, I was asked by our staff to ask that the cornmeal be packaged in more reasonable 5-pound lots. I saw on display this morning that the cornmeal is listed as 5-pound packages, but we have had some 10-pound lots and 5 pounds certainly is a much more reasonable amount.

Four, we suggest, also, allocating the small-quantity items to a State in a manner that would accommodate the whole State pro-

portionally, or consider withholding release of such items to a State at all. If you cannot cover the State proportionally so that the food can be distributed to all food banks or feeding programs, it is better not to send those small-quantity shipments at all to that State. Send it to another State where you can cover the whole State proportionally, because it presents local problems that are unbelievable.

Mr. BODE. We are doing that now.

Dr. GABRIO. Are you?

Mr. BODE. It is a State decision. If the State prefers not to receive cornmeal in 1 month but instead receive twice as much cornmeal in the following month, we are accommodating them.

Dr. GABRIO. That is interesting. Word has not filtered down to us yet.

Five, investigating the cutbacks in certain items, and

Six, urging a better planning process for the shipment of surplus food to the States wherein the time and quantity of shipment are more precisely coordinated.

I just want to thank you and I want to commend the efforts of this subcommittee. We are certainly grateful to you. We hope that the program is continued, and the poor and the new poor in the State of Washington are grateful, also. Thank you.

Senator DOLE. Thank you.

Mr. Bode, would you like to comment on anything that she said?

Mr. BODE. I believe the $50 million you were referring to initially was the money provided to FEMA, and FEMA is administering that through block grants. The Department was provided $75 million for the purchase of perishable commodities, and those commodities are now being purchased and some of them have already been distributed.

Dr. GABRIO. Well, there is $50 million that goes through the United Way, Salvation Army, and Red Cross boards, also, and they are sending out money to purchase food.

Mr. BODE. That is money that was allocated by FEMA and it is for meeting shelter as well as food emergency needs at local levels, and none of that money was provided to the Department of Agriculture for purchase of commodities.

Dr. GABRIO. I know, but they are passing out the money to purchase discounted food, which I do not consider very good use of that money.

Mr. DIPPRE. There is also $50 million being made available to the States to pay for storage and transportation, including administrative expenses.

Dr. GABRIO. And also to purchase food. They offered us money to purchase food. We have had two offers; one through the $50 million with the private board, and the other through the State authority.

Mr. BODE. Sir, I do not think it is unusual for groups that are very active and doing a very good job to be receiving jobs bill moneys not only from the Department of Agriculture through our commodity activities, but also through the FEMA moneys.

Senator DOLE. Let us hear from Mr. Dippre.

STATEMENT OF ROBERT DIPPRE, DIRECTOR, BUREAU OF GOVERNMENT DONATED FOODS, COMMONWEALTH OF PENNSYLVANIA, ON BEHALF OF THE NATIONAL ASSOCIATION OF STATE AGENCIES FOR FOOD DISTRIBUTION

Mr. DIPPRE. Mr. Chairman and members of the committee, my name is Robert Dippre. I am a member of the National Association of State Agencies for Food Distribution. I am also employed by the Commonwealth of Pennsylvania as the director of the Bureau of Government Donated Foods.

Now, today I am speaking on behalf of the National Association of State Agencies for Food Distribution and we want to address current needs and problems in the distribution of food to two different categories of recipients: first, the emergency food outlets—that is, soup kitchens that provide meals and organizations that supply food to unemployed and other needy people; second, the school food service program and other agencies that are the regular recipient outlets for the food distribution program.

The Temporary Emergency Food Assistance Act of 1983 will soon expire, but meanwhile we face the following situation that underlies the principles of the distribution program.

Even with the acreage reductions, the USDA projections for major 1983 crops indicate substantial carryovers of current abundant supplies that are depressing farm prices. The food distribution program has been a mechanism since the 1930's for putting surplus foods to good use to help support farm prices.

While the unemployment rate has abated, there are still more than 11 million Americans looking for work. Organizations that provide food and meals to the hungry continue to look to the food distribution program to help meet their needs.

School food service programs, operating under tight budgets, made good use of donated foods in their daily menus. But when they read about substantial surpluses, they want to know why restrictions are placed on the types or quantities of foods they receive.

We at the State agencies can easily get caught in the middle between the Federal level and operation of the programs at the local level. While the Temporary Emergency Food Assistance Act of 1983 raised hopes of the stepped up food assistance at the local level, there have been many disappointments.

First, the volume of cheese and butter made available from CCC stocks for emergency food outlets has been cut severely. For example, in Oklahoma the State's allocation of cheese has been cut to 73 percent and the butter to 50 percent. There is only enough for the needy in 15 counties. The rest of the State's 77 counties receive nothing.

When the USDA initiated the program at the end of 1981 to avoid spoilage and reduce storage costs, State agencies were urged to find ways to put the dairy products into the hands of the needy.

In Pennsylvania, we still continue to distribute cheese and butter to all the needy families in the State, as we did last year, if the supplies are the same as they were last year.

The effects of the Temporary Emergency Food Assistance Act of 1983 have yet to reach down to the local emergency food outlet,

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and the quantities of surplus foods allocated to the States fall far short of the needs.

In Louisiana, for example, the State distribution agency has found that its allocations are sufficient for only a fraction of the 777,000 people which the USDA listed as below the poverty line in its regulations for the Temporary Emergency Assistance Act. Louisiana finds that it is alloted only 50 percent of the cheese needed for those people, 20 percent of the nonfat dry milk, 21 percent of the rice, 8 percent of the flour, and only 4 percent of the cornmeal.

State agencies everywhere are faced with the problem of deciding which emergency food outlet is to receive varying quantities of the foods and which outlets will not receive any food.

Meanwhile, there is a lag in the shipment of the donated foods to the States. Some of the canned foods apparently will not be shipped until the second half of September. There also has been a lag in the release of the Federal advance funds authorized by the act for emergency food outlets to cover their costs of handling the donated foods.

Bearing in mind that the Temporary Emergency Food Assistance Act of 1983 was aimed at putting abundant foods to good use, the school food service programs are puzzled as to why they have been shut out of many of the provisions of the act.

Schools had expected that the act, for one thing, would let them make use of much greater quantities of flour than they now receive. But despite the act and the size of the wheat surplus, flour has not been designated as a bonus commodity for school lunch programs. Only a few nonessential foods have been made available to school lunch programs as additional bonus commodities.

At the same time, schools have been excluded from the funding of the Temporary Emergency Food Assistance Act that pays for intrastate transportation and storage of foods it encompasses. While those costs are only a fraction of the value of the commodities involved, the costs are significant in light of tightened school lunch budgets.

Traditionally, school food service programs and other eligible agencies that regularly receive donated foods have to pay the costs of intrastate transportation and storage of the foods they receive. This is so because when the food distribution program was created in the 1930's, no provision was made to cover these costs.

In most States, the costs are passed along to school lunch programs on a percase basis. Any Federal funding of the intrastate costs would help schools make better use of their budgets and more use of donated foods.

Having said that, we want to emphasize the unique character of the food distribution program among all other Federal programs. Every dollar spent in this program does the work of $2. The same dollar that strengthens the farm prices by acquiring surplus foods also helps the school lunch and comparable programs to provide nutritious meals within modest means. We welcome the opportunity to find new ways to improve coordination and distribution of these foods to needy people.

Thank you.

Senator DOLE. Senator Melcher?

Senator MELCHER. Well, Mr. Dippre, were you not seeing any surplus cheese——

Mr. DIPPRE. In the school lunch program, sir?

Senator MELCHER. No; available for distribution to senior citizen programs or the Salvation Army, or what have you, prior to 1983?

Mr. DIPPRE. Since the inception of the needy family program, Pennsylvania has distributed some 19.5 million pounds of cheese, and I believe about 8 million pounds of butter to needy families.

Senator MELCHER. What I am getting at is that you stressed the 1983 act, but were you not getting anything before that?

Mr. DIPPRE. Oh, yes. At the beginning of January 1982, we began to see it.

Senator MELCHER. Do you find that there is a sufficient amount for Salvation Army soup kitchens, for instance?

Mr. DIPPRE. No, I do not believe there will be. We have not started distributing to our soup kitchens yet. All the commodities are not in in the State of Pennsylvania, but the amounts that are allocated to us definitely will not be enough.

Senator MELCHER. You have not given any to the Salvation Army yet?

Mr. DIPPRE. Well, the Salvation Army is one of our prime movers of commodities to needy families, but you are talking about the soup kitchens.

Senator MELCHER. Right.

Mr. DIPPRE. We have not been distributing to them yet, no.

Senator MELCHER. You never had enough to do it?

Mr. DIPPRE. They were never included in the distribution before.

Senator MELCHER. They could be, though, could they not?

Mr. DIPPRE. Now they can, under the jobs bill.

Senator MELCHER. They could be before that, could they not? Could they have been available since 1981?

Mr. DIPPRE. Soup kitchens could have been used as distribution sites if they were willing to give to——

Senator MELCHER. I want to clear this up. Is it your understanding that beginning in January 1982, those commodities were not legally available to the Salvation Army soup kitchens?

Mr. DIPPRE. Not to their soup kitchens for preparation of onsite meals, no.

Senator MELCHER. Well, I think you are wrong and I want Mr. Bode to confirm that.

Mr. DIPPRE. We are talking about two different programs, I believe.

Mr. BODE. Yes, we are.

Mr. DIPPRE. Under our regular distribution program, we have agreements with the Salvation Army to supply them with commodities on our institutional line. Now, they have been getting them right along.

Senator MELCHER. Are you talking about distribution to needy families or are you talking about using it in the soup kitchens?

Mr. DIPPRE. I am talking about using it in the soup kitchens now.

Senator MELCHER. They have been getting it right along?

Mr. DIPPRE. Yes, under our institutional agreements.

Senator MELCHER. So, that was available and was being used and is being used now?

Mr. DIPPRE. Yes, right.

Senator MELCHER. Thank you.

Senator DOLE. I think you have made some good suggestions. Mr. Bode indicated earlier that USDA could probably do pretty much what they are doing now without extending the program that expires on September 30. Do you see any problem with that?

Mr. DIPPRE. Pennsylvania will accept any amounts of commodities that are made available to them. We have hungry people in Pennsylvania, and as long as you are making commodities available we will accept them in any amounts.

Senator DOLE. I guess the issue is whether or not we need to extend the legislation. If the Department already has the discretionary authority, then I guess the question is whether or not we need to extend the legislation which expires September 30.

Your feeling, I think, as I understand it, is you could probably do just about everything without an extension, is that correct?

Mr. BODE. Yes, sir.

Dr. GABRIO. Including the administrative costs?

Mr. BODE. No. The administrative funding is one item that would not continue. Also, there have been some funds appropriated under the jobs bill for special purchases of commodities and, of course, those funds will be exhausted.

Senator DOLE. Do the States put up anything on administrative——

Dr. GABRIO. Yes, yes. But, you know——

Senator DOLE. But it is not that much in a State like Washington, is it?

Dr. GABRIO. It is very little, and I think that the existing organizations such as ours who have been eating all of these costs now for 18 months, and some of our foundations and people that support us, you know, may not want to continue to do that.

I think that there should be some sort of a provision for administrative funds, and I do not mean necessarily administrative. In some of our areas, we need funds for just plain storage on an occasional basis. You cannot find storage. People are not donating storage, especially refrigerated storage.

You know, we have put freezers in some of the food banks and we have mobilized almost all we can. We have stretched ourselves thin to take care of this. But those volunteers need some sort of management system, and I do not mean a huge bureaucracy. They perform very well, but the recordkeeping and accountability is not the greatest in the whole world.

I think that something needs to happen, and I think we need to have continuing administrative funds—frankly, I do not care what percentage it is as long as there is something in there. Two percent is a little skinny, though. [Laughter.]

Senator DOLE. If the Federal Government delivers the food to Harrisburg, is the State not willing to distribute it?

Mr. DIPPRE. The State has been willing to distribute it.

Senator DOLE. Without any additional cost to the Federal Government?

Mr. DIPPRE. The funds that were available through the year 1982 have just about been exhausted in the State of Pennsylvania, and

unless we get funding I think we will be in trouble trying to distribute it.

Senator DOLE. Are you talking about State funding?

Mr. DIPPRE. Yes, or Federal funding.

Senator DOLE. I know in both States, you are hard hit by unemployment, particularly in certain areas, with Boeing layoffs and all the other trickle-down things that happen.

Dr. GABRIO. Lumber.

Senator DOLE. Lumber.

Mr. DIPPRE. Steel.

Senator DOLE. Steel.

Dr. GABRIO. And refugees; we are having a huge influx of refugees.

Senator DOLE. I did not realize you were the third largest State.

Dr. GABRIO. And they are mostly centered in the metropolitan areas. We are getting a lot of refugees that have settled in Idaho and some of those other places back into the Seattle-King County area because that is where their friends and relatives are and they do not want to be in Idaho when everybody else is in Seattle.

So, they are not only coming from their original countries, but they are coming from within this country back to Washington.

Senator DOLE. Well, we are going to try to make this program work, and we certainly appreciate the testimony of each of our witnesses. Mr. Bode has been kind enough to sit right up here, along with his staff, and if you have any good recommendations, I'm certain the Department would be receptive—they want to administer the program in the right way, but there are bound to be some problems.

I assume you have some after you receive it, too.

Dr. GABRIO. Massive problems.

Senator DOLE. You can complain about USDA and somebody down the line could complain about your operation, so that never ends.

Mr. DIPPRE. They do.

Dr. GABRIO. They do.

Senator DOLE. That kind of problem will always be with us, but, despite the problems, it would be better to continue the program than not have one at all, is that correct?

Dr. GABRIO. That is the way we feel. We are very appreciative of the program. We hope you extend it and we hope you will slip in—if you do not legislate it, slip in some administrative money somewhere else without the legislation.

Mr. DIPPRE. The State of Pennsylvania feels the same way.

Senator DOLE. You are not running out of cheese, are you, John?

Mr. BODE. No, Senator. We have got plenty.

Senator DOLE. About how much do you have left?

Mr. BODE. 850 million pounds. There is plenty.

Dr. GABRIO. Is that cheddar or primarily American processed?

Mr. BODE. That is held in different forms. A large part of it is in 550-pound barrels of cheddar. Not too much of it is in processed.

Dr. GABRIO. Really, I do not want the cheddar at all. It is too hard to keep. The shelf life is short; it is refrigerated.

Mr. DIPPRE. That is right.

Dr. GABRIO. If you could turn that into processed cheese, I would appreciate it.

Mr. BODE. That is what we have been working to do. Because the processed stores much more easily, it is easy to handle in the distribution sites.

Dr. GABRIO. Right.

Senator DOLE. But have you really gained from this effort? I mean, do you have more cheese now than you had when you started this program?

Mr. BODE. Yes, sir, because of the dairy price support program. We have even more now than we had when we started.

Senator DOLE. It encourages production. All of our programs encourage production and then people wonder why we have these surpluses.

Well, we appreciate your testimony very much. We could probably start the next panel. I have to leave here at 12:30. Would you like to try that, Susan? You are a fast talker, I know.

Ms. FRIDY. That is right.

Senator DOLE. Thank you very much.

Mr. DIPPRE. Thank you.

Senator DOLE. Susan Fridy and Bob Anderson, if you could help us with a short statement, we might be able to dispose of your testimony. We certainly want to accommodate the panel. We thought we could finish this morning; we had some Iowa witnesses that we were pleased to accommodate, but this took about a half hour longer than we planned.

Mr. ANDERSON. I am an Iowa witness, too, so I will take another half hour.

Senator DOLE. Good. If Senator Melcher would like to stay, I need to leave at 12:30. We would appreciate hearing your testimony, and your entire statements will be made a part of the record.

Susan, why don't you proceed and see how far we get?

STATEMENT OF SUSAN FRIDY, DIRECTOR, CONSUMER AND NUTRITION PROGRAMS, NATIONAL MILK PRODUCERS FEDERATION

Ms. FRIDY. Thank you, Senator. I will be very brief. As you know, I was before the subcommittee just a few months ago stating the National Milk Producers Federation's total support of the commodity distribution program.

I come here again today to say that our position has not changed. We are fully in support of the program. I will not go into the history which is in our prepared statement, but I will say that the commodity program is an important part of our national food policy and is the most direct link between those programs which help farmers stabilize their income to encourage production for an adequate of supply of food and those programs which assure that that abundance that we have reaches the most vulnerable of our population—the elderly, the poor, and our children.

For this reason, the program is most important. But as in all Federal programs, it is essential that they are properly administered. In this case the program loses its effectiveness when we have unnecessary displacement of the commercial market.

We have seen a bit of displacement in the market, however it seems to be directly related to the policies of distribution in particular markets. The problem is a matter of administration.

We have found in those areas where the States and where the local groups have taken great care to assure that the needy receive the product, there is no displacement. But there is evidence that people who are not needy are getting free dairy products, and evidence that those who are needy are getting far in excess of what they can use and give it to relatives and neighbors. That is where the displacement comes into being a problem.

I would also caution that all the data right now on displacement was in the first quarter of this year when we had wildly fluctuating amounts of product that were distributed and that perhaps with the stabilizing factor the Department has gone through, the displacement factor may at this point be dissolved.

But at the same time we would like to say that we do not think that just a cutback across the board is the way to attack the problem. Just giving out less does not necessarily mean that the right people are getting the product, and we certainly do not want anyone who is hungry to go without this abundance. That would be foolish.

I would also like to say that this has been a new experience. While, certainly, our food programs began with distribution some years ago, really it is only in the last year-and-a-half that we have been distributing to the States and to individuals.

But there has been a lot of experience that has been gained and I think some local groups found they had bitten off a little too much more than they could chew. But we have to remember that there was a Federal responsibility here to give some guidelines and guidance to the State and local levels that guidance was never given.

That basically summarizes our position. We appreciate the opportunity to come and make a statement.[1]

Senator DOLE. Now, you work with the USDA, as I understand it, and give them suggestions on how to speed up the program.

Ms. FRIDY. Oh, yes. John and I have spent a lot of time on the phone, and Joe Shepard. We have no problem working with USDA whatsoever.

Senator DOLE. Senator Melcher, do you have any questions of Ms. Fridy?

Senator MELCHER. No, I do not think so. You think the disruption is localized in areas rather than general.

Senator DOLE. Maybe you can just remain a few minutes.

Ms. FRIDY. Yes, I would be happy to.

Senator DOLE. We will hear what Mr. Anderson has to say, and this may trigger some questions for both of you.

STATEMENT OF ROBERT F. ANDERSON, EXECUTIVE DIRECTOR, NATIONAL CHEESE INSTITUTE

Mr. ANDERSON. You have my full statement and I will summarize it and maybe we can get you to lunch.[2]

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[1] See p. 91 for the prepared statement of Ms. Fridy.
[2] See p. 94 for the prepared statement of Mr. Anderson.

Senator DOLE. I am actually leaving to give a speech. Maybe they will have lunch there.

Mr. ANDERSON. Have some cheese; buy it, though, please.

I believe it would be helpful for the subcommittee if I commented briefly on the constituency of NCI, which is the National Cheese Institute. It represents about 90 percent of the manufacturers of cheese in this country. Its membership is the largest companies and the smallest. Most of the co-ops are members of our organization and, if you recall, co-ops are also made up of individual farmers. So, we represent a broad base of people.

Our members' primary purpose is to market cheese for commercial trade. However, because of the dairy price support program, we are also responsible for converting surplus milk into the 40-pound blocks and 500-pound barrels of cheddar cheese.

The Government purchases these products through the Commodity Credit Corporation if the private sector does not absorb the full amount of cheese that we have tried to sell commercially, and have been doing very successfully over the years.

In this role, the cheese industry is that link between the farmer and the Government—that sort of middleman who is forgotten too often in Government, the middleman who does the job of converting it.

NCI is proud of the fact that this idea for the temporary, nationwide giveaway of surplus to the needy grew out of discussions we had early on with the Department on how they could convert this product. How much cheese can be processed? How can we get some processing lines to do this job? So, we were pleased with the first efforts of the giveaway program.

The present program, though, is very inequitable; it is not exactly what we had in mind when it started. In the first place, the Government has, out of necessity, had to rely on makeshift, essentially volunteer distribution networks for the giveaway. This network was and is simply incapable of distributing cheese in a way which insures that only the truly needy receive it.

Some of those organizations do not concern themselves with who is eligible, only how much cheese can each person receive. Now, it is also known that a 5-pound loaf of cheese, while the most practical size for schools and institutions, is more than most individuals can use promptly.

Some of this cheese is being cut and stored for use later, and some is redistributed to the recipients' friends and families not eligible for cheese.

Furthermore, the problem is not always the inability of the organizations to distribute huge volumes, but a deliberate disregard of Government guidelines that state who is entitled to free cheese.

In reality, cheese is often given to anyone who asks for it—the affluent and not so affluent, as well as the needy. In addition, news media reports have exposed the fraud and other abuses.

I know in Chicago, you had to belong to an organization before they would even give it to you.

However, my principal purpose here today is to talk about the negative impact on the cheese industry and its ultimate cost to the taxpayer. The negative impact would exist even if the fraud and other abuses were corrected.

As one might suspect, this massive giveaway has caused a serious disruption of the commercial cheese market in the United States. Since at least 1963 and until the giveaway began in 1982, retail sales tonnage of all varieties of cheese increased each year relative to the previous year.

The percentage increase in 1981 as compared to 1980 was almost 4 percent—typical of what had been going on. When the giveaway program began, the growth rate stopped abruptly and then declined for the first time in 20 years. This was the only factor; there were not any other factors. All the other factors were the same.

This decline continues at an even greater extent through 1983. We have more data up to date through May. It is still declining. Now, I have provided the documentation of this.

To the extent that the manufacturers must sell their cheese to CCC, the purpose of the giveaway, which is a reduction in Government surplus, is being frustrated. The more cheese is given away, the more commercial sales decline, and as a result the Government is forced to purchase more cheese which goes back into the massive inventory. The effect is an unending spiral and a significant cost for the taxpayers.

It should be noted that many small cheese manufacturers who sell to processors are the first to be hurt by this decline in retail sales. When the processors' needs decrease, they purchase less product, and because many of these small businesses do not qualify to sell their cheese to CCC, they lose money and are forced to lay off employees. This is a fact that we have studied. Thus, taxpayers are burdened by the addition of unemployment because of this giveaway.

In essence, all cheese manufacturers are being penalized for the problem that was created through no fault of their own. They have not overproduced cheese. Rather, the price support program encourages farmers to overproduce milk.

One of the best ways to store this highly perishable raw milk product is to convert it into cheese. So, when there is a surplus of milk, cheese manufacturers are performing a service that primarily benefits the milk producer.

Efforts to reduce the cheese surplus through a giveaway have limited value without changes in the U.S. dairy support program, which is the root of the entire problem. While NCI believes in the price support concept, all segments of the dairy industry over the long term can be healthy only when the milk production and consumption of dairy products are in alinement.

Now, what I have presented and what all of us here today are talking about from a variety of other organizations is the need for immediate reform. The members of NCI urge this subcommittee to call upon all sectors of government, industry, and special interest groups to work out a solution that feeds truly needy Americans without continued commercial market decline and taxpayer burdens. We would be pleased to be a part of that.

I thank you for allowing me to come.

Senator DOLE. Has there been any study done on how much cheese is purchased with food stamps? That is indirectly a giveaway.

Mr. ANDERSON. It is indirect. One company did a survey of food stamp recipients. Ninety-six percent of them had been purchasing cheese.

Senator DOLE. You are not objecting to using food stamps?

Mr. ANDERSON. No. That is the best way. That is the way we have been encouraging it.

Senator DOLE. I can understand why producers support this approach. I hope we are not gearing up a program just to provide higher price supports for dairy farmers. They are about to break the bank now, so we do not want to do that.

Mr. ANDERSON. No. As I say, we are the middleman in this and when we do the job you ask us to do, there is no profit in making cheese for the Government.

Senator DOLE. As I understand it, we have given away about 450 million pounds of cheese. What do you have on hand now?

Mr. BODE. 850.

Senator DOLE. You would have a pretty good hunk of cheese—about 1.2 billion pounds.

Mr. BODE. We do have some data on low-income consumption of processed cheese. The national food consumption survey tells us that low-income consumption is about 5 pounds per capita annually.

Senator DOLE. That is through the food stamp program, or just your figures on low-income consumption?

Mr. BODE. That is just low-income consumption.

Senator DOLE. Five pounds?

Mr. BODE. Yes, sir. That is annual per capita.

Senator DOLE. Have you seen all this, John?

Senator MELCHER. Yes.

Senator DOLE. Well, that is the same point I think Ms. Elliott made—that a lot of people take the cheese, because it is there even though they do not need that much. They have their own distribution program, I assume. [Laughter.]

So you are suggesting not that we terminate the program, but that we tighten it up?

Mr. ANDERSON. Tighten it up; just be sure of what you are doing and recognize the fact—we have had people talk about the funding for the volunteer groups losing money because of this.

There is also an industry that is losing money and jobs because of this program, so that it should not be just haphazard. Let us not just get rid of the surplus; let us feed the truly needy. That is what we are saying.

Senator DOLE. And you would suggest we reduce the surplus by changing the price support programs, not expanding the giveaway programs?

Mr. ANDERSON. This overhanging surplus has to be gotten rid of, too, because that is affecting the market, and that is best bartered or sold in international trade. Some other committee in Congress, I am sure, is working on that and blocking that idea.

Senator DOLE. You are not suggesting making the program permanent?

Mr. ANDERSON. Oh, no. [Laughter.]

Did I say that?

Senator DOLE. No. I am not suggesting that we make it a permanent program, but I can already see the desires here. You know, once we get started, we never can stop the momentum. I think breeding cavalry horses was a temporary program, which only ended a few years ago at Fort Riley, Kans. But this is an emergency food program, and hopefully we will have our surpluses worked down, with the help of Susan and others who are trying to find the right ratio.

John, do you have any questions of these witnesses?

Senator MELCHER. Yes, I have one.

Mr. Anderson, you said that nothing else changed in this steady progression of consumption of cheese. You indicated that it increased 4 percent in 1982. When did it level off?

Mr. ANDERSON. Did you get a copy of the charts?

Senator MELCHER. Yes.

Mr. ANDERSON. Well, as the charts indicate, in 1981 it was flat, and then as soon as this big increase at the beginning of 1982 started, it dropped as an increase over the year before.

Senator MELCHER. Yes; 1981 was the last year of increase?

Mr. ANDERSON. Yes.

Senator MELCHER. Well, then, 1982 was the year showing a decrease or flattening out?

Mr. ANDERSON. In 1982, it went down.

Senator MELCHER. In 1982, it actually went down?

Mr. ANDERSON. Yes.

Senator MELCHER. Four percent?

Mr. ANDERSON. What?

Senator MELCHER. How much did the consumption drop in 1982?

Mr. ANDERSON. Let us look at our charts. In 1981 it was flat; 1982 was when it started down.

Senator MELCHER. Well, beef went off, too.

Mr. ANDERSON. Pardon?

Senator MELCHER. Beef consumption dropped off, too, in the United States.

Mr. ANDERSON. Yes.

Senator MELCHER. You drew rather a firm conclusion and I am just pointing out that there are other foods that cost about the same per pound, or maybe a little bit more per pound, and they flattened out and went down, too.

You know, you can draw this conclusion on behalf of the institute that because of the cheese program, consumption flattened out and went down. But I am not surprised that there would be some displacement. But I think there are other factors involved in the dropoff.

If we had to adjust every nutrition program when there was some displacement, we would not have any nutrition programs in this country. If an institute for one of the foods surmised that because of the nutrition program in the United States there was market displacement, I suspect we would have every commodity group in here from time to time, from prunes to pickles to beef.

Senator DOLE. Could I just quote from Dairy Outlook and Situation, June of 1983, at page 21? On this displacement issue, it says—

To the extent there has been displacement of cheese sales, processors have either had to hold larger inventories or sell additional product to the Commodity Credit

Corporation. In fact, net cheese purchases by CCC during October-December 1982 and January-March 1983 were up 60 and 64 percent, respectively, from year-earlier levels. While part of the larger purchases can be explained by a higher level of milk production, a share of the increased removals was because of the displacement of sales.

I do not know how you break that down, but undoubtedly there is an impact and it does make a difference.[1]

Mr. ANDERSON. We were going up. Canada continued on up. Cheese is a very popular food. We promote the heck out of it. It sells very well. It is a good food; it is a good item. Sales were excellent—this nice, steady growth for a long period of time.

Beef people have these fluctuations. We did not have those fluctuations. The chart indicates that concurrent with the giveaway starts the "down." That is what we are saying. Now, if somebody else has some other factors that can tell us why that happened, fine.

Senator MELCHER. There are a lot of other factors. Beef got cheaper, pork got cheaper, chicken got cheaper, and people are out of work. These are all factors, and it is very difficult to draw any conclusions.

I am not criticizing you, because you cannot draw a perfect conclusion. I am only pointing out that you are making a supposition which may or may not be correct. And Bob recited from the market outlook, or whatever that Department bible was. You know, they are subject and prone to the same sort of suppositions which are always incomplete and you are never guaranteed they are accurate.

What gets in there, frankly, is the consensus of feeling from the Cheese Institute, from the beef people, from the wheat people, from everybody. They all contribute to what gets in the Department reports, and I am not criticizing the Department for those reports either because it is an imperfect art.

Senator DOLE. We have one witness remaining, if John would not mind hearing Mr. Minear.

Senator MELCHER. Two.

Senator DOLE. I understand the wheat growers' witness could not be here, but they have a statement to put in the record.

Senator MELCHER. OK.

Senator DOLE. Is there any validity to the suggestion that we may have people eating more cheese now because of their circumstances who may, when things improve, go the other way as far as your processors making more cheese?

Mr. ANDERSON. We can only hope for that; yes.

Senator DOLE. This is a little marketing program here that is carried on at the cost of the Government that is going to help the processor down the road.

Mr. ANDERSON. It is a cost to the Government, but it is a cost to the processor, too. Maybe we are all losing a little on this.

Senator DOLE. You will recoup that.

Mr. ANDERSON. All right, sampling is fine.

Senator DOLE. Yes.

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[1] The full text of the article, "Cheese Donations and Their Effect on Commercial Disappearance," from the June 1983 Dairy Outlook and Situation is reprinted in the appendix on p. 127.

Mr. ANDERSON. Senator, please, this does not mean we are opposed to the program. All we are trying to say is there has certainly been a need for the adjustment that the Department went through. It was not a frivolous act on their part to adjust that to a more realistic distribution level, and there is more need to give it to the needy and not just——

Senator MELCHER. Well, I think every group ought to expect some displacement from nutrition programs, but I think basically nutrition programs help the Cheese Institution just like they help the beef producers, pork producers, wheat producers, and processors.

In this whole chain, if it were not for the abundance and all the available supply of all this stuff, your institute along with all other processing groups would have a tougher row to hoe.

It is so commonplace in the United States to have an abundance of all this stuff that when we seek to make sure that everybody has a whack at it, a lot of things go wrong with it. Our nutrition programs can never be perfect and there is always going to be a certain amount of displacement. I think that goes with all the abundance that we have.

[Whereupon, Senator Melcher assumed the chair.]

Ms. FRIDY. If I could just add one thing, we did take an informal survey of our members, and while we represent dairy farmers, many of our cooperatives have processing; in fact, some of the largest processing organizations in the Nation, and I am sure they are members of yours, too.

Mr. ANDERSON. Right.

Ms. FRIDY. What I found very interesting in this survey is we gave them three questions on the back. What did they feel the solution was to possible displacement? And not one of them checked "give away less cheese." They all checked off "more guidelines on whom it should go to."

I found it also very interesting that those cooperatives marketing cheese that reported a 5-percent decrease in sales did not attribute it to the cheese giveaway. It was only when they got up in the area of 12 percent or higher that they pointed their finger at the giveaway program.

Senator MELCHER. One answer to making up for the displacement, and that is do as Kraft did in their fine advertising on the country-western program that they——

Mr. ANDERSON. There is a lot of promoting going on.

Senator MELCHER. Well, I think you have to recognize there is going to be some displacement. I think it would be inevitable, given the amount of commodity there is for distribution and given the amount of hunger that actually exists.

So, the answer probably is, since cheese is a very nutritional food, to do as Kraft did in their ads on that program. I do not know whether you watched it or not, but they taped the country-western program at Constitution Hall and put it on about a month afterwards. I thought the ads that Kraft had in that program were some of the finest ads I have ever seen any processor and food distributor produce.

They actually made your mouth water as you watched their ads. They were just as outstanding as the performers, I thought.

Mr. ANDERSON. We just feel that it is unfair to compete—you cannot compete with your own Government when they give it away and they are trying to sell it, any more than we can compete with the EC subsidizing their imports and we try to compete with that.

It is just competition and we want to be as fair with competition as we can and distribute it to those who are truly needy.

Senator MELCHER. It cannot be avoided, though. When they drag out a tin of that beef that is there, somebody can say, well, it is our Government competing with private industry. There has to be some displacement.

Mr. ANDERSON. They bought the beef, though.

Senator MELCHER. Pardon me?

Mr. ANDERSON. They bought the beef from a beef company.

Senator MELCHER. Well, somebody processed this cheese.

Mr. ANDERSON. Yes, only that goes to the farmer.

Senator MELCHER. All of it?

Mr. ANDERSON. Not all of it, but very little of it stays with the processor.

Senator MELCHER. Well, I will tell you, every food processor says the same thing, and it is true.

Mr. ANDERSON. The cost of production has not been raised.

Senator MELCHER. Very little of the processing of that beef into that tin went to a processor.

Mr. ANDERSON. I am sure they do not want to do that either.

Senator MELCHER. Well, you just want the program to work. We do, too, but I am just warning you that I think you have to expect some displacement. None of these programs are perfect.

I do not find anything wrong with your recommendations at all. I tend to agree with you. It is just that I think you have to expect some displacement and accept it. The basic program is always going to cause some displacement.

I would also agree with you up to a point when you say, well, barter or sell it abroad. I certainly agree with you. I would also add, give it abroad, too.

Mr. ANDERSON. Give it abroad, too, as long as we feed our people at home first.

Senator MELCHER. Yes, that is right. We are on the same track.

Mr. ANDERSON. Thank you very much, Senator.

Senator MELCHER. Thank you.

Ms. FRIDY. Thank you, Senator.

Senator MELCHER. Now, I understand we have one last witness. Mr. Minear, you have been in this room often for the same good purpose.

STATEMENT OF LARRY MINEAR, MEMBER, BOARD OF DIRECTORS, INTERRELIGIOUS TASK FORCE ON U.S. FOOD POLICY

Mr. MINEAR. I appreciate the chance to be back again.

Let me introduce myself by saying I am Larry Minear, member of the Interreligious Task Force on U.S. Food Policy. What we would like to do is to address the issue of the use of the wheat security reserve. We will not be speaking to the issues of displacement

or of fraud and abuse, but simply to the drawing down of the food security reserve for an expanded domestic nutrition program.

We have essentially three basic interests which I think we share with your committee. In the first place, we would like to see fairer returns, preferably in the market, for U.S. producers. Second, we would like to see more effective and expanded Federal nutrition programs for low-income consumers. Third, we would like to see expanded food-aid programs, as you have just indicated, to the Third World.

In our view, these three objectives—for U.S. producers, for low-income consumers in this country, and for the Third World—these objectives are not incompatible. However, care needs to be taken in the process of writing legislation so that all three objectives are served.

So, Senator Melcher, we have essentially four recommendations which begin on page 2 of our prepared statement.[1] First, we ask the question of whether there is a demonstrated need to take some of the wheat that is in the 4-million-ton food security reserve and make it available for expanded domestic feeding purposes.

We have been unable to document the fact that there is need for wheat and wheat flour in community pantry and other programs. We are aware, as you and others are , that there has been a massively expanded use of community pantries in the last year or two as our economic situation has worsened in this country.

However, we are not clear on the fact that there is need for wheat and wheat flour products in them. So, in that sense, we recommend that the committee make a survey of the need for wheat in these programs before it goes ahead to extend the authority to use wheat for this purpose.

Second, we ask the question of whether there is a better way of making wheat available to low-income people in this country than by drawing down the food security reserve, which was, as you know, set up for Third World emergency needs.

Our preference would be to have the committee grant USDA the authority to purchase such wheat as is needed rather than giving it the authority to use wheat that is in the food security reserve.

The reason for our recommendation is that the food security reserve wheat that is in this 4-million-ton stockpile is worth more than wheat that is on the market now for purchase by USDA. We would like to see the wheat in the reserve protected and instead have purchases be made on the open market.

Our third recommendation is that if you decide to use the food security reserve for some of these domestic nutrition programs, we would recommend that the maximum tonnage of the wheat that is made available be 300,000 tons. This would include the period that begins with the jobs bill and runs through the end of the legislation that you would be authorizing.

We have heard that there are figures that would take that number up higher above 300,000 tons—500,000 tons, 750,000 tons, or whatever. It is our recommendation that for a variety of reasons, 300,000 tons should be the ceiling.

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[1] See p. 119 for the prepared statement of Mr. Minear.

Finally, our fourth recommendation is that replenishment guarantees be legislated so that whatever wheat is drawn down from the reserve would, in fact, be replenished as quickly as possible.

We have one suggestion which the House has accepted which we would like to see you use in a bill that you might report: That of the CCC takeovers of wheat stocks, the first priority for those wheat stocks be given to replenishing the reserve. We feel that that would guarantee that our cupboard would be full when we need food for international needs.

So, to summarize our position, we feel that it is possible to meet the needs of producers in this country, of low-income consumers, and also of food-short people in the Third World, and we offer these suggestions as a way of doing that.

I would be glad to answer whatever questions you might have on our recommendations.

Senator MELCHER. Well, I tend to agree with your recommendations on wheat and the reserve. I would like to have you respond to several questions dealing with the first part of your testimony.

You say the task force supports anything that will supplement rather than displace existing Federal nutrition programs. That is your first point. Then, second, is extend rather than reduce regular program benefits to which an individual is entitled.

That brings up my first question on the task force food policy. Do you feel that the food stamp program as it is now and what is allowed in stamps should remain about where it is at per individual family?

Mr. MINEAR. Do you mean the allotments or the number of people who are enrolled in it?

Senator MELCHER. The allotments.

Mr. MINEAR. Well, we have in the past been anxious to use the food stamp program as creatively as possible to help meet low-income needs, so we have not supported a rockbottom approach to what those allotments should be.

We have supported a reasonable benefits package, if you will. We have also tried to assure that the cutbacks in the program not be such that people with bona fide need be excluded from it because we are needing to reduce the overall levels.

So, we have been supportive of a strong, and even expanding food stamp program, as well as a program that is toned up and made more effective.

Senator MELCHER. In the case of schoolchildren in a family that is eligible for food stamps, do you oppose reduction of food stamp allotment for the family because of the school lunches that are served to the schoolchildren?

Mr. MINEAR. That is an answer that I would prefer to supply for the record. I know that we have testified on that point before, but I am not clear at the moment in terms of what we have said on it. I would be happy to get that information for you, though.

Senator MELCHER. Yes, I would like to have that because I think that proposal will surface again.

[The following information was subsequently submitted by Mr. Minear:]

We strongly oppose counting any benefits or commodities received under federal or state assistance programs against food stamp benefits for which an individual or

family is otherwise eligible. To do so would deprive families of important sources of nutrition assistance and could force them to choose between receiving food stamps or having their children receive free or subsidized school meals. In that case, most families would be likely to opt for food stamp benefits which could leave many children without any breakfast or lunch. Since over 50 percent of the children participating in the lunch program and 80 percent of those in the school breakfast program are needy, very few families could afford to start paying for their children's school meals.

Senator MELCHER. Now, the third point you make is that you believe any commodity distribution program should be responsive to actual emergency nutrition needs rather than press commodities on private agencies in forms or amounts not needed, desired, or usable by them.

Do you feel that that is much of a problem?

Mr. MINEAR. We have seen a study which you may also have seen that traces the expanded use of such emergency distribution programs over the period from February 1982 through February 1983.

The study indicates that in virtually every such program, there has been an increase in the people who have come to the program, sometimes as much as eight and tenfold during the period of the 12 months.

The people who responded to that survey have also indicated that frequently, the kinds of commodities which they have been given by the Government for distribution are not those commodities which are the top priority for the people who are enrolling.

So I would say in answer to your question: Yes, we do feel that there needs to be a better match between the kinds of commodities made available and the needs of people in the program.

We were also making this point with respect to wheat and wheat flour. We have had a number of programs which have told us that while they would like to make bread and pastry available to people who enroll in these programs, when they receive from the Government wheat flour it is in a form that low-income people cannot use. So, that was part of the thinking behind our recommendation.

We would be happy to submit that study for you for the record.

Senator MELCHER. No; that is all right. It is a little bit depressing to think that you could be very hungry at home, and yet you do not know how to make bread.

Mr. MINEAR. I think it is in part a lack of knowledge, but in part, also, the wherewithal to do the baking and to process it further.

Senator MELCHER. I only have one comment. I wish the task force could be more vigorous on using food abroad through Public Law 480, particularly through distribution through the charitable organizations.

Mr. MINEAR. May I make a brief comment on that?

Senator MELCHER. Yes, I wish you would.

Mr. MINEAR. A number of the agencies which are members of the task force, including Church World Service which I work for directly, are involved in overseas distribution of title II commodities.

We are aware that there are increasing needs in many countries, particularly this year as the food crisis worsens. So we are looking for ways to expand our own programs in a number of countries.

We also, on the last page of our statement, mentioned a number of food shortfalls which are really reaching major proportions. We mentioned Ethiopia, Zambia, Nepal. There are also shortages in Bolivia and Peru. And we are committed not only to use our own program resources to try to move commodities into these countries, but also to support you in your efforts to expand the resources in the title II, Public Law 480 program.

Senator MELCHER. I do not think we even have to go any farther than Mexico. The nutritional level there, I am told, is far from adequate, and constantly causes the vigorous and strong, healthy members of the family to illegally enter this country to earn a few bucks and go back home with it or send it back home to help the rest of the family.

Mr. MINEAR. Right.

Senator MELCHER. While sometimes it is difficult to impose charity on another government of another country, it would be most helpful, I think, for millions of families in Mexico if our food abundance were shared with them through title II of Public Law 480.

Mr. MINEAR. I visited a project in Mexico last June wherein the food needs were very clear. This was in the poorest state in Mexico altogether, and I was looking at some UN efforts to try to increase the economic development there. But you are absolutely right; the food shortages were critical.

Our task force has been vigorous, I think, both in supporting Public Law 480 and in working with the USDA and AID along those lines, and in trying to get more funds for economic development so that there will be more purchasing power in those countries for American commodities and other commodities.

Senator MELCHER. I want to thank you for testifying, Mr. Minear, and thank the Interreligious Task Force for the fine work that you do every day of the year.

Mr. MINEAR. Thank you very much.

Senator MELCHER. Thank you.

John, I want to thank you for being here, too, and your staff for being patient and being available all through this.

Mr. BODE. We appreciate your interest.

Senator MELCHER. The subcommittee is adjourned.

[Whereupon, at 1:03 p.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. JESSE HELMS
A U.S. SENATOR FROM NORTH CAROLINA

There has been discussion about continuing the Commodity Distribution Program enacted in the Jobs Bill beyond the end of this fiscal year. I commend Senator Dole for holding hearings on this progam to discuss its successes and problems before we rush in and extend the program.

The Department of Agricuture has distributed millions and millions of pounds of commodities through the Special Distribution Program and the Commodity Distribution Program. It boggles the mind to realize that 400 million pounds of cheese have been distributed to needy individuals throughout the country in less than two years. And almost every pound of that cheese has been transported and distributed with volunteer hands.

In addition to cheese, USDA is distributing butter, non-fat dry milk, rice and cornmeal.

Like all Government programs, this one is not without its problems. I understand that some States have been lax in setting criteria for those eligible to receive commodities. This has resulted in the distribution of some commodities--particularly cheese--to those who are not in need. When non-needy can receive cheese for the price of a brief stand in line, they will not purchase cheese products from their local grocery store. This results in displacement of regular retail market sales of cheese. Even more importantly, this impact on retail sales ultimately affects purchases of dairy products by the Commodity Credit Corporation--financed by the taxpayers. Obviously, it does little good to give away millions of pounds of cheese--or other commodities--with one hand if, in doing so, we consequently displace, and therefore buy through the CCC, millions more with the other hand.

It should be emphasized that the issue of displacement carries with it the clear implication that non-needy individuals are being served. Obviously, if the poor were the sole recipients, there would be little displacement. However, it is when higher-income citizens--who might otherwise buy the product--begin participating that displacement becomes a counterproductive influence.

For instance, in my own State of North Carolina at one time individuals over age 60 were eligible for the commodities without regard to their income status. I have had countless stories told to me of very well-off citizens who decided to take advantage of the "free cheese" precisely because there were no income standards for participation.

Because of these concerns about displacement, I have asked the General Accounting Office to prepare a report on the extent of the displacement factor--and particularly to include an analysis of "displacement" relative to eligibility criteria in the various States being examined. I believe we should await this report before extending a mandatory commodity distribution program.

Another issue which I feel is important is that of voluntarism. The cheese program had worked well for almost 18 months without Federal funding of administrative expenses. However, the Jobs Bill expanded this administrative funding for certain, limited food banks, soup kitchens, and other emergency relief organization.

Now the House Bill, H.R. 1590, proposes to go yet another step toward a bloated Federal program by proposing to establish Federal reimbursement for expenses of all participating agencies--even those that have historically participated in other surplus commodity distributions for many years.

It seems to me that the Secretary of Agriculture has been doing a fine job. The more the Congress tries to mandate, frankly, the more it seems we stir the pot unnecessarily--causing unforeseen problems.

One last point that needs to be made. There seems to be a widespread perception that USDA storehouses are "bulging with surplus commodities"--as is so often stated in the media and elsewhere.

The problem is that, to the extent there are any "bulges", they are almost exclusively in dairy products--cheese, butter, and non-fat dry milk. There simply are not surpluses of many other farm commodities. There is some rice and cornmeal, and these are being made available by USDA.

But the notion that somehow there are massive quantities of commodities being withheld from the American people is absolutely false. Those who spread such information--knowing it to be false--are doing a great disservice to the American public--taxpayers and recipients alike.

I look forward to joining with the Members of the Subcommittee in hearing our witnesses today.

STATEMENT OF HON. WALTER D. HUDDLESTON
A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, I commend you for calling this hearing today. This hearing will give us an opportunity to hear from the Department of Agriculture and the other important witnesses as to the effectiveness of the Commodity Distribution Program so that we may determine whether or not to provide an extension of the temporary Emergency Food Assistance Act of 1983.

This hearing is both timely and essential because of the legislation awaiting Senate approval that would extend and expand the 1983 Act: S. 17, reported by the full Committee in March, and H.R. 1590, a companion bill that was approved by the House of Representatives by an overwhelming vote of 389-18.

Also, I am concerned about reports that commercial sales of cheese are being adversely affected on the Commodity Distribution Program. If this in fact is the case, we need to know what measures the Department plans to take to alleviate this problem.

The evaluations of the program and the suggestions for improving the program we will receive today are well worth having. I am pleased that we have a variety of witnesses on hand and look forward to having the benefit of their comments.

STATEMENT OF HON. BOB DOLE
A U.S. SENATOR FROM KANSAS

Today, the Nutrition Subcommittee is holding an oversight hearing on the effectiveness of the current Commodity Distribution Program administered by the Department of Agriculture under the Temporary Emergency Food Assistance Act of 1983, which passed the Congress as a Hatfield-Dole Amendment to the Jobs Bill, P.L. 98-8.

Legislative History

There are several important issues that need to be addressed at this time in conjunction with this program. The current program expires at the end of September 1983, and we need to determine whether it should be extended beyond this date. S. 17, the Domestic Commodity Distribution and Food Assistance Act of 1983, which I introduced on the first legislative day of the 98th Congress, along with over 30 bipartisan cosponsors, remains on the Senate calendar, after having been reported from the Agriculture Committee last March. The House has just recently passed its version of S. 17, by a vote of 289-18. H.R. 1590 was introduced by Congressmen Panetta and Emerson, and is very close to my original concept of S. 17.

Iowa Experience

We have already heard testimony from witnesses representing the State of Iowa which ranked number one in per capita distribution of surplus commodities last year. Iowa has developed an exceptionally effective, low-cost distribution system utilizing a large volunteer effort, and it has been recognized as a model program by the U.S. Department of Agriculture.

USDA Perspective

The Administration will be represented by John Bode, Deputy Assistant Secretary of Agriculture for the Food and Nutrition Service at USDA. He will tell us about the Department's efforts to make surplus commodities available to needy people in local communities. He has also brought with him some actual samples of the kinds of foods being distributed as surplus commodities--CCC stocks as well as section 32 seasonal products.

Need for Extended Program

Our later panels include directors of local programs, who will testify on the need for this kind of Commodity Distribution Program, as well as some of the ways in which the program might be improved, based on first-hand experience. We will also hear from representatives of programs in the States of Washington and Pennsylvania, who have encountered certain problems in administration of the program and distribution of the actual commodities.

We especially thank those witnesses who have travelled long distances to be here with us today to tell us about their programs--Jo Ann Elliott from the Prescott Neighborhood Association, which I visited in Kansas City, and Dr. Beverly Gabrio from the F.O.O.D. Program in Seattle.

International Wheat Reserve

We will also look at whether access to wheat in the food security reserve should be retained in any commodity distribution legislation reauthorized for FY 84. Under the Jobs Bill, the Secretary has discretion to use up to 300,000 tons of wheat in the reserve for domestic distribution.

So far, the USDA has not used its authority to distribute reserve wheat. Therefore, the question before us is whether an adequate supply of wheat flour is reaching the needy under existing programs, and whether access to the reserve should be continued under new legislation.

Concluding Remarks

I think that providing surplus agricultural commodities to local food banks, soup kitchens, and other charitable organizations makes a lot of sense. In times of economic hardship, when Americans are in need of food, we should continue our efforts to share this country's agricultural abundance with those who are

less fortunate. This kind of program has strong support in the Congress, and it appeals to the generosity of the American spirit as well.

STATEMENT OF HON. PATRICK LEAHY
A U.S. SENATOR FROM VERMONT

Mr. Chairman, I want to first commend you for your continued efforts on commodity distribution and nutrition programs. I also want to congratulate you for your initiative on S. 17.

This hearing will focus on that legislation, the need for its continuation, administrative problems encountered thus far, and changes that may be necessary in the program.

I want to tell this Subcommitte that in my home State of Vermont and elsewhere throughout this country, there is more than a demonstrated need for surplus commodity distribution—there is a crying need.

Mr. Chairman, ten percent of this country's labor force does not have a job. Together with drastic cuts in food stamps and other nutrition programs enacted over the past two years, the use of emergency food shelfs and food banks has skyrocketed.

Surplus agricultural products have helped serve this need. Since late 1981, some 500 million pounds of cheese and 125 million pounds of butter have been provided to States for distribution to people who need it.

In Vermont, more than 870,000 pounds of cheese have been given out.

Yet, the Department of Agriculture has recently decided to suspend this program. They call it a reduction but the effect has been a suspension.

Frankly, Mr. Chairman, I find that appalling.

The human suffering exacted on this nation by the recession can not be measured by statistics. To discontinue this valuable program at a time of economic distress is to ignore the reality of the plight of millions of people.

There is a proven need for this food, Mr. Chairman, and I know that you have been working through S. 17 to meet that need.

At the time the distribution program was suspended, the Department of Agriculture was receiving orders from States for commodities that matched or exceeded USDA's ability to process the foodstuffs. States could use all of the food we could give them, and then some.

In Vermont, that need continues. Today I want to submit for the record two statements prepared by Vermonters on this situation.

The first, prepared by Gus Seeling of the Central Vermont Community Action Council, clearly demonstrates that Vermont can use surplus commodities. The second, prepared by the Windsor County Unemployed Council, reaffirms the fact that surplus foods are helping people who have no where else to turn.

Mr. Chairman, aside from continued access to surplus commodities, Vermont and other States also need some help with intra-state distribution costs.

Many community action agencies and other non-profit organizations have stretched their budgets to the bone in order to meet these costs.

S. 17 does provide some funding for these efforts, and I applaud that. The Department of Agriculture, however, does not seem to believe that a need exists. They have steadfastly refused to provide even partial funding of these necessary costs.

Mr. Chairman, the United States benefits from the greatest agricultural abundance in the world. No one should have to want for food.

The Department of Agriculture and the Reagan Administration should make every effort to get government surplus commodities to the millions of people that need them.

STATEMENT OF HON. DAVID PRYOR
A U.S. SENATOR FROM ARKANSAS

Mr. Chairman, with the recent reports that commercial sales of cheese have been displaced because of the Commodity Distribution Program authorized by the Jobs Bill, I am pleased that the Subcommittee Chairman has called this hearing today. I believe that if commercial sales are being adversely affected, Congress must act accordingly.

In addition, this hearing will give us an opportunity to determine whether or not the Department of Agriculture has taken an aggressive approach toward implementing the various commodity distribution provisions of the Jobs Bill.

Although the Jobs Bill authorized the Secretary of Agriculture to carry out a Commodity Distribution Program through the end of fiscal year 1983, I do not believe that the temporary measure was meant to replace S. 17.

S. 17 was reported by the Committee in March and is awaiting Senate approval, as is H.R. 1590, a companion bill approved by the House of Representatives by an overwhelming vote of 389-18.

If there are any problems with the current commodity distribution program, we need to hear about them today before we take up S. 17 and H.R. 1590.

I look forward to hearing the testimony of all our witnesses today.

STATEMENT OF HON. PETE WILSON
A U.S. SENATOR FROM CALIFORNIA

Mr. Chairman, thank you for the opportunity to testify before this Subcommittee on the Domestic Commodity Distribution and Food Assistance Act, S. 17. I am a cosponsor of this legislation and would like to reaffirm my strong support for its passage. This legislation as you know, would channel surplus agricultural commodities owned by the Commodity Credit Corporation to those in our nation who are in genuine need of food.

Components of this legislation were included in the Jobs Bill passed earlier this year, however, it provided only a temporary measure. S. 17 would extend this necessary program through FY 84.

S. 17 addresses several problems regarding our surplus commodities and provides a viable solution. According to the USDA, $3.9 billion worth of surplus food is being stored in warehouses at a cost of $600,000 a day. This enormous cost and the possibility of spoilage is averted by the distribution of the commodities.

A very significant result of this legislation would be the reduction of the surplus commodities kept in storage. The Federal Government acquisitions of farm products has drastically increased as demand has not absorbed surplus production. These stocks now have a negative effect on the market and reduce the chances of a recovery in farm prices.

Another important element of this bill is that the number of institutions that would be eligible to receive commodities is increased. As a result, a larger number of needy people will be recipients of these surplus commodities.

I believe that the Domestic Commodity Distribution and Food Assistance Act is not only necessary, but is a practical approach to reducing the surplus commodities owned by the Federal Government, and to making surplus food available to food banks, soup kitchens, churches, and other non-profit charitable organizations that serve the needy people in our nation.

STATEMENT OF HON. TOM DASCHLE
A U.S. REPRESENTATIVE FROM SOUTH DAKOTA

I would like to voice my deep concern over the authorization in various bills—H.R. 1590, S. 17 and S. 822--of a drawdown from the Wheat Food Security Reserve (WFSR) for domestic food purposes. The tapping of the international famine relief reserve is unnecessary to meet domestic hunger needs, a breach of promise to U.S. farmers and a betrayal of our commitment to developing nations.

It is incongruous that we would raid an emergency food reserve in a time of great surpluses. Logic would have us maintain, or even expand, reserves during this time of plenty.

The amount of H.R. 1590 that can be taken from the Wheat Food Security Reserve is 300,000 tons, and the amount that can be taken for domestic purposes in S. 17 is 500,000 tons. In addition, export initiatives in S. 822 would take another 1.5 million tons from the reserve. The point to be made, however, is more one of principle than quantity.

Tapping the Reserve Breaks a Promise to American Farmers:

The United States established the 4 million metric ton wheat reserve in 1980--a reserve which was to be used only for international famine cases and a reserve which was to be totally isolated from the U.S. market.

The creation of this famine reserve was long overdue and difficult to achieve, basically because of domestic political concerns that the wheat reserve would be a depressant on U.S. grain prices. With strictly drawn legislation and assurances regarding market isolation by Members of Congress, particularly Members of the Agriculture Committee, the Wheat Food Security Reserve was established. But by authorizing tapping into the emergency reserve for any amount, we are going back on our promise to farmers that the grain be held back from the market. The minute that the reserve is made into a "borrowing take" it is no longer truly isolated. Borrowing from the reserve only supports the arguments of those who would prefer that we have no reserve at all.

Tapping the Reserve is not Necessary to Meet Domestic Hunger Needs:

All of the above bills—H.R. 1590, S. 17 and S. 822--provide replenishment of the reserve from grain forfeitures and purchases. It is possible that the grain would not be replenished if, in fact, an appropriation is needed to resupply the reserve. But if we intend to replenish the reserve anyway, why go through the extra step of taking it from the international reserve in the first place? We have plenty of grain available on the market. And if the PIK Program works and grain prices rise, replenishment of the reserve will be more costly a year from now.

Instead of taking grain out of the emergency reserve, we should go directly where the surpluses exist--to the American farmer. Wheat surpluses do not exist in government owned stocks, but are owned by American farmers. And the argument that is more "convenient" to take the grain from the Wheat Food Security Reserve and worry about replacing it later is a weak one when one takes into account that we have plenty of grain outside of the reserve and when compared against our commitment to the international community and to U.S. farmers.

Tapping the Reserve is a Violation of our Commitment to the International Community:

The United States has made a commitment to the international community to maintain an emergency wheat reserve. Our government should not toy with the lifeboat--the Wheat Food Security Reserve. Natural disasters and refugee flights are unpredictable and we must have readily available food. No one wants us to be in the position of having to go through the Congressional budget process while people starve, as was the case during the 1972-74 famine in the African Sahel. A current example of the unpredictability of natural disasters is the massive flooding in northern Peru, a normally very dry region. Other places where we might need to utilize the Wheat Food Security Reserve are drought-stricken Ethiopia, Bolivia and southern Peru. The Wheat Food Security Reserve allows us to immediately provide grain in times of famine. The United States actively encourages nations, through our food and development aid policies, to establish food reserves. Tapping the reserve for domestic purposes is a bad example, flies in the face of our development goals and diminishes the integrity of the Wheat Food Security Reserve.

Statement Of

Honorable Cooper Evans
U.S. Representative
3rd District of Iowa

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to appear before you with information that may be pertinent to your deliberations on the government's commodity distribution program.

At my request in early May, the General Accounting Office began reviewing the U.S. Department of Agriculture's decision a few days earlier to sharply curtail the nationwide distribution of surplus dairy products to the needy and unemployed.

USDA's announcement had the effect of a called third strike on those of us from Iowa and elsewhere who were early advocates of using surplus commodities to help the poor. The decision also ran counter to a growing bipartisan consensus in Congress to expand rather than contract the government's efforts in feeding those who were down on their luck.

Specifically, I asked GAO to determine the validity of reports that the commodity program started in January 1982 was hurting commercial cheese sales and was failing to reduce or even contain the government's cheese inventories. In addition, I was interested in GAO's assessment of the need for a national eligibility requirement for recipients as a way of ensuring that needy Americans would receive adequate supplies of cheese in spite of the nationwide reduction.

Thus far, GAO has surveyed some of the data available through other federal agencies, has conducted interviews with USDA officials in Washington and in several regional offices, and has made on-site visits to five states, including my own state of Iowa.

Although a final report is not anticipated until later this summer, the agency's auditors briefed me orally yesterday on the data already collected. It is on that basis that I venture forth with my brief testimony today.

Let me begin with several conclusions that I think are indicated by GAO's preliminary findings:

First, the inventory of cheese in government warehouses has increased unabated during the 19-month life of the food program, suggesting that an unlimited distribution of the commodity is not the answer for solving the dairy surplus problem.

Since January 1982, the government has distributed an estimated 400 million pounds of cheese nationwide. During the same time period, the cheese inventory has exploded -- from 430 million pounds in January 1982 to 963 million pounds in April 1983.

At best, the distribution program has slowed the rate of increase in the inventories.

Second, commercial sales of American-type cheese have fallen as the distribution of surplus cheese has risen. This displacement is particularly evident since October 1982 when nationwide demand for govern-

ment-owned cheese spurted forward in quantitative leaps. GAO's analysis indicates, for example, that grocers in my state have lost sales totaling 27 percent of the 12.3 million pounds distributed to the state's needy.

Third, commercial displacement has contributed to a revolving door effect in which the government distributes surplus cheese to the states in one rotation, then purchases additional inventories from processors in the next.

Until the last quarter of 1982, commercial sales of American-type cheese -- the kind used in the commodity program -- showed a steady upward climb over the past 20 years. Sales of other varieties of cheese -- Swiss and Muenster, for example -- increased at an even faster rate.

From October to December 1982, however, American cheese sales fell 5.1 percent compared to the same quarter a year earlier, while other cheeses continued their upward climb, increasing by 11.9 percent.

The drop in sales of American cheeses continued into 1983, sinking more than 15 percent compared to the previous year, but other cheese sales rose 7.2 percent.

The shifting fortunes of American cheese seem inescapably linked to the rapid increase in distributing the surplus commodity.

Fourth, the cheese program has aided millions of needy Americans, but there appears to be significant room for improvement in administering it.

GAO's data indicates that eligibility requirements and verification practices vary widely from state to state -- and even from locality to locality within a state -- resulting in confusion, inequities, petty theft and fraud, and greater displacement than would otherwise occur.

Some states have no eligibility requirements at all, other than some vague notion that the cheese is intended for the "needy". Others, such as Iowa, require an income limitation such as 185 percent of the poverty level but demand no verification. Others still use guidelines required by the food stamp and similar government programs.

The Food and Nutrition Service maintains the right of states to set criteria for participant eligibility. But GAO has gathered significant volume of testimony from state and local officials that they would prefer receiving some firm guidelines from the federal government. To make matters more complicated, two FNS regional offices have issued suggested guidelines but they are different.

Left to their own devices, local distributors generally measure the success of their program by volume of cheese that is sent out of the door. Many of them have informed GAO that their jobs would be easier with some definite guidelines to avoid a variety of pressures associated with handing out cheese to neighbors and friends.

GAO found, however, that many states have tightened their requirements since USDA announced a 50 percent reduction in the cheese program in April.

We may never know the quantitative effect of abuses and fraud in the program, but GAO's findings indicate that complaints are numerous. The following are representative examples of petty abuses.

-- Iowa reported nearly 700 instances in which individuals collected surplus cheese at more than one distribution center. In one case the individual visited four centers in two days, collecting more than 60 pounds of cheese using a fictitious name.

-- A church in Texas refused to distribute cheese to any one other than a church member.

-- Other distributors required a donation from participants to cover costs.

-- GAO has found numerous instances of theft including the loss of 4,800 pounds in Western Illinois

GAO has been deliberately sparse with the details of its inquiry, judiciously avoiding conclusions and recommendations that may be forthcoming in the final report. But if the information that I have conveyed here today stands up to the auditors' analyses, then the House and Senate face several challenging and difficult policy questions.

Is a national cap on cheese allocation the proper course to follow, as USDA has chosen to do? Or should our thrust be in the direction of establishing reasonable national guidelines and allow the quantity to fall where it may? How should we balance the apparent competing goals of reducing dairy surpluses and continuing our long-term commitment to feeding the poor? What is an acceptable cost to the taxpayer?

STATEMENT OF CHARLES PALMER, DEPUTY COMMISSIONER,
IOWA DEPARTMENT OF HUMAN SERVICES

Thank you, Mr. Chairman, and members of the Sub-Committee for the opportunity to appear before you and to provide information for the record. I am Chuck Palmer, Deputy Commissioner of the Department of Human Services, and I have been involved with the very successful distribution of federal surplus commodities in Iowa. In January of 1982--days after President Reagan announced the release of free cheese by executive order--Iowa began distribution of the commodity in Waterloo and Dubuque. With passage of PL 98-8 in late March of this year, the "Temporary Emergency Food Assistance Act" gave Congressional authorization for this program as well as expanding the list of commodities available and providing the states with storage and distribution funds. In Iowa this "Title II" program has been very successful, with Iowa holding the national record for per capita distribution of cheese and butter.

The state agency I represent, the Department of Human Services, has also been involved with the two other emergency feeding programs authorized by PL 98-8. While we have suggestions for the improvement of both Title I programs--as we also have for the Title II program--we are generally pleased with the overall accomplishments and effectiveness of the Title I programs and are proud of the cooperative efforts evidenced between the public and private sectors in Iowa. The Iowa state plan, organizational structure, and distribution processes can serve as a paradigm of cooperation and efficiency. The agencies and groups involved in the food distribution process in Iowa would concur with the Department of Human Services in requesting continued availability of surplus food for the needy.

Two basic facts make clear the need for extensions of existing programs or the creation of similar new food programs beginning on October 1. First, the existence of hungry in this country is a "given." Second, Iowa and many other states have demonstrated cost-effective food distribution programs that are relatively free of fraud and abuse.

To expand on the both factors--and to address any concerns or critism about the programs--we would ask you to consider the following points.

- A large proportion of the population--500,000 persons in Iowa--have come to depend upon the free foods as a supplement to their nutritional needs. Although it is too early to tell, the recent drastic reductions in quantities are expected to have a very adverse effect. Ending the programs altogether would be even more harmful to the hungry.

- Low-cost distribution can be ensured through the use of an extensive volunteer network. Iowa's population distribution, i.e., its basic rural nature, makes the food distribution more difficult than it would be in essentially urban areas. Nevertheless, cost-effective deliveries to small communities have been accomplished through volunteers' involvement and commitments in Iowa and other rural states.

- It is possible to virtually eliminate fraud and abuse through basic, relatively inexpensive, quality control measures. In Iowa, a small sample of recipients are contacted after each distribution. Volunteers or agency staff make telephone calls to verify the recipients' eligibility. A refusal to cooperate in the verification process means a denial of future commodities. Clients who received amounts exceeding their eligibility are requested to pay for the overages. Those cases--if not quickly resolved--are referred to the Department of Human Services' Inspector General, the Division responsible for fraud and abuse investigations in other agency programs. Other referrals to the Inspector General include any suspicious responses to the quality control survey and any citizen complaint.

  The appropriate balance of resource allocation must be maintained for quality control of this and other benefit programs. The dollar value of the commodities received by a single family is low enough to make extensive investigations of a high percentage of recipients impractical and costly. On the other hand, sufficient resources must be committed to deter and to uncover and penalize cases of fraudulent activity. Iowa's revised--making use of existing fraud and abuse control expertise--strikes the right balance to ensure that only the needy and those in need of emergency food assistance, e.g., the unemployed, are served.

- Market displacement is not a major issue in Iowa, as evidenced by the lack of complaints from commercial outlets, processors, or distributors. The absence of complaints is especially significant since Iowa led the nation in per capita distribution. A limited survey in the Waterloo area verified the lack of major concern. In addition, information from the Iowa Dairy Commission showed that although sales of American cheese were down 27 percent in the last quarter of 1982, this was more than compensated for by an increase of 11.3 percent in sales of other cheeses for the same period.

  Since Iowa is not finding market displacement to be a major problem, it is difficult to accept reductions of 74 percent and 80 percent in the amount of cheese and butter respectively made available. We question the need for such drastic reductions and continue to request information that formed the basis for the decisions to reduce quantities and the size of the reductions.

  We also feel that while discontinuing or restricting the program may address any displacement found in other regions of the nation, it would be done at the expense of Iowa's needy who continue to feel the effects of the lagging recession in agricultural states and would leave the larger question of the purpose of the growing stored surplus unanswered.

- An additional benefit from the distribution program has been the creation of jobs. The processing of cheese arranged by the state has caused new hires in the Waterloo area where unemployment is very high.

We offer Iowa's experience as evidence that this program can work. Because Iowa's method was planned in a thoughtful and deliberate manner, we have been able to efficiently and cost-effectively serve a large eligible group while keeping fraud and abuse at a minimal level. In considering the value of extension of food distribution programs, we ask that you look at Iowa's program and judge the worth of the commodity programs on the basis of that example.

In addition to our position that the food distribution programs are worthy of extension, we would make the following comments and suggestions for improvement of the programs.

- The period for which the programs are reauthorized should be substantial--at least one or two years. It is most difficult to establish and maintain the needed volunteer network if the program is perceived to be of short duration.

- An amount of food adequate to assist the hungry must be provided. We encourage federal studies and investigations necessary to determine both the extent of actual market displacement and appropriate eligibility criteria. It is possible that studies will indicate that eligibility criteria have been too liberal. It would be better, we feel to slightly tighten the criteria if those who remain eligible may be assured of sufficient quantities of food each month. Drastic reductions must be avoided.

- States need continued funds for the storage and distribution of commodities. The federal government should share in the administrative burden for this program. As worst for the federal budget this would only be a shifting of funds to states that would otherwise be spent on continued USDA storage.

- Congressional intent must be understood and correctly implemented by the United States Department of Agriculture. We understand PL 98-8 to mandate the supplying of all commodities not necessary for other purposes to be available for distribution to the needy. We were therefore surprised at the drastic 74 percent and 80 percent cutbacks ordered by Secretary Block to forestall market displacement. In addition, we disagree with USDA's formula for allocating storage and distribution funds to the states as it does not take into account prior distribution activity. We urge USDA to make a long-term commitment to the planning and management of commodity programs.

In summation, it is Iowa's position that the food distribution programs should be coordinated and extended. We would be pleased to have any of our experience and expertise if it would assist other states or agencies. The rules and manual material that guide Iowa's program are available on request or other background materials are attached.

Thank you for the opportunity to provide these remarks.

IOWA'S COMMODITY DISTRIBUTION PROGRAM

Background Information/Program Chronology

In December 1981, President Reagan announced the release of free cheese to needy persons. Federal Funds for the distribution of commodities under the Federal surplus food program were not authorized.

On January 5th 1982, the Governor designated DHS as managing state agency.

In January 1982, Iowa began the distribution of cheese in Waterloo and Dubuque utilizing donated cold storage, trucks, and volunteer labor.

In February, the distribution was expanded to cover the whole state and distribution of butter was begun in Waterloo area along with cheese as a pilot program.

In May, a semi tractor and reefer trailer were leased to supplement the use of other warehouse trucks to make cheese deliveries. The Woodward Warehouse, a state operation serving DHS institutions began assuming responsibility for statewide delivery of cheese to distributing local agencies.

On May 20th, a meeting was held with representatives of labor, business, private groups and state officials to discuss possible ways to obtain volunteer storage and transportation. Many sources suggested were checked out with little or no results.

May 27th, 1982, the Department requested USDA funding for the storage and distribution process. The request was denied.

May 30th, the President announced the availability of free butter to be distributed nationwide.

In June, OPP approved a grant in the amount of $43,076.00 later amended to $64,076.00 to supplement expenditures for transportation equipment, operating expense and storage expense.

June 7th, 1982, use of institutional foods program administrative funds on a temporary basis was approved by USDA for partial funding of the Surplus Food Program.

In June, problems with lack of control of timing on federal delivery of cheese, and lack of local storage prompted DHS to route all cheese into the DHS distribution center at Woodward for more timely distribution by DHS trucks. An emergency storekeeper was added to the warehouse staff to handle the cheese and on June 30, a clerk typist II was added to assist in maintaining ordering, scheduling and storage records and processes.

Bringing the cheese into the DHS distribution center brought about the need for a second semi tractor trailer. One used tractor trailer reefer truck was purchased with the OPP grant monies; another driver was also added.

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Timing of local deliveries to meet publicized local distribution dates and the need to maintain the cheese at an acceptable temperature became more critical during the summer. On August 24th, 1982, a third transport driver was hired to improve delivery timing and to alleviate excessive overtime costs.

In January, 1983, we received chicken antitrust settlement funds ($54,000) based on the Court's acceptance of the Department's plan of utilization for the cheese and butter program. (The General Assembly authorized expenditure of these funds during FY 84.)

On March 4, 1983, the USDA cancelled Iowa's April order, citing the increasing demand placed on the federal processing and distribution system by growing state requests for cheese.

Responsive actions spearheaded by the Hawkeye Valley Area Agency on Aging and the Iowa Congressional delegation resulted in USDA agreeing on March 15 to reimburse Iowa 12 1/2 cents per pound for processing cheddar cheese (500 pound barrels) into five pound boxes of pasteurized American cheese or cutting 40 lb. blocks of cheddar into the desired size.

Armed with this authorization, Iowa signed agreements with three processors and continued to distribute. Iowa was the first state in the nation to take this initiative.

In April 1983 DSS signed an initial agreement with Rath Packing Company of Waterloo to cut 40 pound blocks of cheddar into 5 pound portions and package it for home use. Cut cheddar was distributed as a pilot in the Waterloo and Mason City districts. The agreement not only assured a timely supply of cheese it also provided jobs for Iowa citizens.

Congress, in late March, enacted Public Law 98-8 including Title II--"Temporary Emergency Food Assistance Act of 1983". The Act provides $50 million nationally ($474,000 to Iowa) for food distribution and storage expense for the period May 1 through September 30, 1983.

In late April the USDA published rules implementing Title II and Secretary Block announced food allocations under the program. The amount of cheese and butter allocated by USDA nationally is severely cut back--Iowa will receive only enough to distribute to 25 percent of the state monthly, after the final statewide distribution in June.

Rice, cornmeal, powdered milk, flour and honey have also been released. Iowa's allocation is limited to the extent that no one dry product can be distributed statewide. Each district will receive one dry product to hand out in conjunction with its cheese and butter distribution during June through September.

On May 4, 1983 DHS extended its agreement with Rath Packing to cut and package Iowa's cheese allocation under Title II.

In May the Iowa General Assembly completed action on the Department's various appropriations bills including $100,000 for the operation of the Federal Surplus Food Program.

During May, rules to implement the provision of Title II were prepared for consideration by the Council at their mid-June meeting.

Iowa Accomplishments

Through May 1983 Iowa was successfully distributing at a monthly rate of 1.3 million pounds of cheese and 500,000 pounds of butter, serving 180,000 to 190,000 households which equates to 485,000 to 500,000 needy individuals.

Approximately 4,600 Iowans donate between 20,000 and 25,000 volunteer hours each month to make the program work.

Local Organizations—Area Aging, Community Action Program agencies, churches, unions, municipal and county governments, Salvation Army units, businesses and others—have formed a cohesive state-wide distribution system which the Department serves through its central distribution operation and coordinates through its District offices. Without "Above and beyond the call" performance at every level from the Department to local agencies to the volunteers the program could not have succeeded.

Iowa has successfully piloted many aspects of the program and has a national reputation for initiative as well as effectiveness.

January 1982—Pilot cheese distribution in the Waterloo and Dubuque metro areas organized by the Hawkeye Valley Area Agency on Aging.

February 1982—Iowa was one of the first states to begin statewide distribution of cheese.

February 1982—successfully piloted distribution of butter in Waterloo involving cutting and packaging as well as distribution.

September 1982—began statewide distribution of butter.

March 1983—successfully piloted assumption from USDA of responsibility for processing of raw cheddar into American pasteurized processed cheese and delivering the finished product to Iowa's intrastate distribution system.

April 1983—successfully piloted an arrangement with Rath Packing Co. of Waterloo to cut and package cheddar for distribution in Iowa which provided new jobs as well as cheese for the needy.

The Hawkeye Valley Area Agency on Aging deserves special recognition for their instrumental efforts in the pilot distributions and processing/cutting operations start up.

Product Allocation Limits

June 1983 is the last month during which the distribution will be statewide. Beginning with July only two, rather than all eight DHS districts, will receive surplus commodities. At the reduced allocation levels announced by Secretary Block and applied to Iowa, the state will receive sufficient quantities to supply districts only once every fourth month rather than every month.

The cutbacks were announced amid industry complaints that cheese and butter distributions are disrupting commercial markets. The GAO is investigating these complaints at the request of Congressman Cooper Evans and the resultant report may lead to a greater future allocations to Iowa and other states. In the interim, Iowa's system is shifting gears to distribute at a reduced level.

Not only will distributions be less frequent but the amounts allotted per household have also been reduced. The household schedule to be effective with the June distribution is as follows:

Product Allocation Schedule

(Household size)

Item	Old Schedule	New Schedule	Amount
Cheese	1-2 Members	1-2 Members	5 Pounds
	3-6 Members	3 or More	11 Pounds
	7 or More		13 Pounds
Butter	One Pound Per Household Member		
	6 Pounds Maximum	6 Pounds Maximum	
Corn Meal			
	N.A.	1-4 Members	10 Pounds
		5 or More	20 Pounds
Flour	N.A.	One Five-Pound Bag Per Household	
Rice	N.A.	1 and 2 Members	5 Pounds
		3-4 Members	10 Pounds
		5 or More	20 Pounds
Honey	N.A.	One Three-Pound Tin Per Household	

The Districts schedule for distribution of surplus food at the reduced level is as follows:

Date

Distribution	June	July	August	September	October
#1 Sioux City*	Cheese Butter				Cheese Butter Flour
#2 Mason City	Cheese Butter		Cheese Butter Honey		
#3 Estherville	Cheese Butter		Cheese Butter Honey		
#4 Davenport	Cheese Butter	Cheese Butter Rice			
#5 Cedar Rapids	Cheese Butter	Cheese Butter Rice			
#6 Des Moines	Cheese Butter Milk			Cheese Butter	
#7 Council Bluffs*	Cheese Butter				Cheese Butter Flour
#8 Ottumwa	Cheese Butter Corn Meal			Cheese Butter	

*Experimental space receiving and processing programs to meet the possibilities for distribution in Sioux City and Council Bluffs in September rather than October.

TESTIMONY OF JOHN W. BODE, DEPUTY ASSISTANT SECRETARY
FOR FOOD AND CONSUMER SERVICES
U.S. DEPARTMENT OF AGRICULTURE

Thank you, Mr. Chairman, for today's opportunity to testify about the Reagan Administration's commodity distribution activities. Although our current efforts have been extensive, the Department has a long history of involvement in commodity distribution dating back to the days prior to the establishment of the Food Stamp Program. This history of experience has prepared the Department to effectively implement President Reagan's special initiative in food distribution as well as the requirements of P.L. 98-8, the "Jobs Bill".

Before commencing about these food distribution efforts, I want to point out that commodity distribution is only one part of a larger total effort to meet the food needs of low-income Americans. The Administration is very concerned about the nutritional well-being of these Americans and is unable to provide an adequate diet for themselves. We are taking an impressive array of food assistance programs, responsible for the outlay of [illegible] to meet the critical needs of the [illegible]. With such a large commitment by the Federal Government already established, discussions on food distribution programs must be carefully considered to avoid gaps and duplication.

The primary vehicle for providing food assistance to

almost one American in ten -- at a monthly cost of about $1 billion. Expenditures for this program (excluding Puerto Rico) have increased from $8.3 billion in 1980 to an estimated $12.8 billion this year. This is approximately $900 million more than was spent in 1982. Any family of four with an income of $12,878 or less is eligible for food stamps if its resources or assets are under established limits. The amount of food coupons provided per household is based on the Thrifty Food Plan, a low cost, nutritious diet devised by the Department, and on the net income of the household by household size.

The Food Stamp Program is responsive to people in need of food assistance quickly. Eligible applicants may receive benefits five days from application in emergency situations. The program is also the first line of defense against hunger.

Benefits programs responding to chronic need is the Special Supplemental Food Program for Women, Infants, and Children (WIC). Funding for WIC has grown substantially in recent years. Since Fiscal Year 1980, WIC's $715 million was spent. Funding has grown by more than 60% since 1980's total of $1.116 billion. Currently, about 5 million low-income women, infants, and children receive benefits from this program. Other needy persons not in public care in the Section 8/Public Housing Programs will be participants in the WIC Program. Several programs which serve the same kind of participants as WIC, the Commodity Supplemental Food Program, can [illegible] significantly. Also, the cost [illegible]

also considering the need for community distribution, we must

the nutritional needs of children. Every school day, the School Lunch Program provides full reimbursement for more than 10 million meals and partial support for meals served to another 13 million school children. This year we will spend about $3.6 billion for child nutrition, including the school breakfast program and meals served in day care centers and at summer feeding sites.

We must not forget that there are programs, administered by the Department of Health and Human Services, which are designed to serve the elderly. USDA provides commodity and cash support to these programs, which serve meals to older Americans at congregate feeding locations and to those who are homebound.

Food Distribution

To support and supplement this extensive of feeding programs we have a large food distribution network. This year we will distribute about 6.3 billion pounds of food valued at more than $3.7 billion to various outlets which include schools, charitable institutions, child care centers, elderly nutrition programs, camps and Indian reservations.

The commodities we provide will be acquired under price-support activities and through market interventions to remove surpluses. In addition, some purchases will be made directly to meet the preferences expressed by school food

These traditional commodity distribution efforts result

Distribution, initiated by President Reagan on December 22, 1981, and by subsequent appropriations in the "Jobs Bill". The scope of these efforts must necessarily be bounded by the availability of commodities and by our ability to deliver available items to needy individuals without adversely affecting the farmer-to-consumer food chain.

Every food commodity that the Department of Agriculture holds in uncommitted inventories is presently being distributed for household consumption. These commodities are cheese, butter, vegetable oil, rice, corn meal, and honey. The Department has also included in these distribution activities some flour. While this does acquire a wide variety of foods, vegetables, meats and poultry through market interventions or income surpluses, these purchases are largely earmarked for specific food donation programs for schools and other outlets and are supported by specific appropriations. Clearly, the Department is not "giving us" enormous quantities and varieties of foods which some have suggested could quickly and simply be put into the hands of low-income Americans. We are already doing, through the Special Commodity Distributions Program and through P.L. 98-8 in more quantities of commodities into the hands of institutional outlets, including schools and charitable institutions, and non-institutional outlets, including soup kitchens and food banks.

Another consideration in the expansion of food distribution activity is the health of the farmer-to-consumer food chain.

is analyses and reports information on production of cheese and butter and other products, as well as imports, exports, and Government activities, including acquisitions and distribution. Through this analysis, the Department can monitor the amount of cheese which is leaving wholesale channels for commercial uses. We know that, over the past several years, cheese consumption of all types in the United States has been increasing. However, commercial disappearance (an estimate of final retail or American cheese has declined over the past two quarters, reversing an upward trend. Commercial sales of American cheese in the fourth quarter of 1982 declined by 5.1% from a year earlier. In the first quarter of 1983, commercial sales declined from the same period a year earlier by more than 15 percent. Price declines in commercial sales coincided with significant increases in distribution of cheese through the Department's Special Commodity Distribution Program. During the third quarter of 1982, monthly distribution of cheese by the Department averaged approximately 10 million pounds. By the first quarter of 1983, monthly distribution of cheese averaged more than 50 million pounds. It is very difficult to attribute the decline of American cheese sales to any other factor than the Special Commodity Distribution Program. We are convinced that displacement has occurred as a result of the Special Distribution Program. In response to this problem, we have established the distribution levels at about 20 to 25 million pounds of cheese per month for the remainder of Fiscal Year 1983. Subsequently, we have begun the distribution of non-fat dry milk, flour, rice, corn meal, and

Had displacement been the only concern, we might have stabilized the program at a lower level of distribution, but we are committed to maintaining the program at a level which provides added food assistance to low-income people during this period of economic re-adjustment. At the same time, we must be careful that we do not interfere with the dairy price support system.

Program Efforts

Consistent with the spirit and intent of P.L. 98-8 we quickly published regulations and notified the States of commodity availability, and we believe that we are doing an effective job of distributing commodities to households and institutions under the "Jobs Bill." States have submitted orders for delivery of all funds which will be available to them.

The administrative funding provisions we have established under the "Jobs Bill" appears to be responsive to state requests. These funds are allocated to the States based on a formula giving primary consideration to the number of low-income and unemployed persons in each State.

You will recall the Department has consistently held the position that administrative funding of the program is not adequate. Prior to enactment of the "Jobs Bill", the Federal government was paying an average of 87 percent of the total cost of the Special Dairy Program. States and local agencies' distributors were a large expense. In fact,

[illegible] commodities. We believe it unfair that

The Department can and will adequately respond to existing commodity needs within the Secretary's discretionary authority. This is true for both major areas covered by P.L. 98-8. We are proud that donations of perishable commodities to charitable institutions grew from $15 million in fiscal year 1982 to an expected $31.3 million in fiscal year 1983 under the Secretary's discretionary authority. Charitable institutions include soup kitchens and cooperative emergency feeding facilities. Likewise, donations to households grew from $188.5 million in fiscal year 1982 to $362 million through the first seven months of fiscal year 1983.

We believe, Mr. Chairman, that our record of distributing commodities under discretionary authority is a good one and that we can meet the need for processing and distributing surplus commodity stocks through the exercise of existing discretionary authority.

STATEMENT OF JOHN ELLIOTT, PRESIDENT, FERGUSON NEIGHBORHOOD ASSOCIATION, KANSAS CITY, KANS.

GOOD MORNING. My name is John Elliott and I'm President of Ferguson Neighborhood Association in Kansas City, Kansas. Our Neighborhood has approximately two thousand registered voters and four thousand people. We are a blue collar working poor neighborhood, with 15% below the poverty level. I direct a neighborhood center (Old Fieldhouse) which is completely volunteer with approximately 70 full time volunteers. Our budget is ZERO! This poor because that is how much we have raised. The city pays our utilities, but we fund ourselves.

When we first learned of "Even Chance" in Kansas we were excited, but we never understood how we were to work the program. In fact to our fit.

Under the leadership of Jamie Dunn, CEO Director (Wellness) of Wyandotte County, we devised a plan. First we formed a coalition of providers within the county and together we worked to perform this plan.

Because of lack of funds the larger providers, Salvation Army, Catholic Charities, etc., dropped out of the program. They had paid staff, and could not see that such staff time for this program as it fell to volunteers agencies and churches to pick up where the large agencies left off.

Five Star Center (Redevelop) had the largest staff of volunteers, and since our volunteers had helped devise the program, we also accepted the responsibility of the County Jail Line and filling offices for the county.

We work with many distributing agency to clear names and make certain there is no duplication. I have no hard data, but Circle Jil (which is mainly high class and we never affiliate, they forget where they stop up and go from place to place, under time these different locations a week - and my little old ladies do the rather following and get their names on the locations.

There are five volunteer office persons (1 hours a week on this program. They have a team of volunteers of their own to pick the phones up, type it to customers, distribute, and etc. Within the month that the distribute an impact six tons of change will be given. I'm only telling you this so you can see that within a short period of time we have devised a fantastic distribution program to Wyandotte County it a great deal of people getting the commodities.

Our rules are small - Telephone and attorney being our biggest expense, but as that is to only one phone for the county at $15 a month.

Our system is to divide - through many hours of development both, by the week - for the year - and we are proud of our efforts. The number of families continually call, there all

one truck load of milk for the year - two honey - less rice.
You have tickled our palates with the taste of honey and then threaten withdrawal.

We in Peacocks Neighborhood do not like to waste our time. At our age and time of life TIME is our most precious commodity, right next to friends and cheese - milk or honey.
After spending an entire year setting up system, please don't make our system obsolete and not its wanted.

We would be very jealous if the large entries came back in and took our jobs - as we personally do not run so much money for administration to come in that it would tye us out.
We are here asking for a little consideration and lots of commodities.

Thank you.

STATEMENT OF SUSAN PRIDY, DIRECTOR, CONSUMER AND NUTRITION PROGRAMS, NATIONAL MILK PRODUCERS FEDERATION

Mr. Chairman and Members of the Subcommittee, I am Susan Pridy, Director of Consumer and Nutrition Programs for the National Milk Producers Federation representing the dairy farmer members of cooperatives providing milk and dairy products to this nation. I attended our membership's support for the Commodity Distribution Program to this subcommittee a few months ago and come before you today to restate that position.

The National Milk Producers Federation fully supports the commodity distribution program as an important part of our food policy. In order to ensure that we as a nation have adequate supplies of basic agricultural products to feed all our people, Congress has developed a series of complicated laws designed to provide economic stability to agricultural producers. However, the development of programs which bring an economic incentive to farmers and ranchers to produce adequate food supplies often results in a pricing structure for our food which places the most needy of our people out of reach of the basic elements of a sound diet. For this reason, our national food policy also includes programs designed to ensure that the most vulnerable of our society have access to our agricultural abundance.

The Food Stamp Program, the complex of programs known as the Child Nutrition Programs and the Elderly Nutrition Program are a few examples of programs designed to ensure that the needy will be assured a sound diet. These programs are as much a part of our national nutrition policy as are the programs which work to affect price stabilization for producers.

The National Milk Producers Federation fully supports the commodity distribution program as an important part of this nation's national food policy. As one of the cornerstone programs to the agricultural price support mechanisms to ensure adequate food production, the commodity distribution program is the most direct link between the producer and the needy. Every developed nation has established production floors that in order to ensure that food shortages do occur, that some surpluses are developed. The commodity distribution program serves as necessary surplus food supply diversion in the support of the production making food necessary.

The program, however, is effective only when full value is given to which commodity purchases are originally made. When food is distributed to citizens who could

Unfortunately, an informal poll of our membership does indicate that commercial markets have been disrupted to varying degrees due to the needy family cheese distribution program. In various markets, our members report cheese sales losses in the first quarter of 1983 in amounts ranging from no displacement to 25 percent displacement. The amount of commercial sales displacement appears to be directly related to the policy of distribution of free cheese in the respective markets.

We emphasize at this time that our membership reports no market disruption due to commodity distribution to schools, elderly feeding programs, and other congregate meal programs.

The market disruption that has been reported to us appears to be due to cheese released to people who are not needy and in some cases cheese given in excess amounts to needy people who then pass the surplus on to friends and relatives who are not needy.

All evidence of market displacement is based on market surveys conducted during the first quarter of this year. In light of the fact that USDA has now stabilized its donations to [illegible] million pounds a month instead of donations in widely fluctuating amounts, the problem may already have been largely solved. We will not have this until second quarter market reports are in.

We must also take into account that the needy family cheese donation program has been a one experience. While food service organizations serving congregate meals have been accustomed to working with government commodity donations, most of the needy family cheese donation program has been a first-time situation for all those involved from the federal through the state to the local level. Those who congratulated in determining amounts to order from the federal government and similarly, local groups organizing to bring food to hungry families had no guidelines to help them determine realistic amounts to request.

Many families volunteered their planning and professional services to help a food to its needy fore-mens. But who have been members involved in serving groups from businesses to local organizations and our congregate associations, helped to provide cold storage and other services. But in many cases, local organizations were unable to distribute their food to needy and increasingly [illegible] distribution systems.

Perhaps [illegible] study, coupled with USDA's present policy of supplying [illegible] will help to alleviate some of our problems of excess distribution.

ensure that it is the needy who receive the product and that extremely destitute are barred from access to the free food, variance will continue to be discovered.

To date, no federal regulations have been developed to provide guidelines to the states to determine who are eligible recipients and to ensure that conduct volunteer agencies are properly organized to conduct the local distribution programs. Some states have done an excellent job in handling the commodities, other states have done a disasterous job.

But more than most federal guidelines are needed because Congress has provided funding for state and local use to distribute the donated commodities. It is important, therefore that both the product and the funding are handled properly. Needy Americans should receive all the available product they can use without waste, but Americans without need just not receive the products.

Federal guidelines for commodity distribution to recipients need not be complicated nor do they need to be restrictive to the point that needy Americans are barred access to the product. Requirements that distributing agencies be properly organized to handle the product, that individual recipients demonstrate need, regardless of age, and that amounts released to individuals do not exceed levels of reasonable use are important to ensure that the program is run to the recipient's best advantage.

Market disruptions are not merely a disadvantage to cheese processors and state distribution agents. Market disruption of price support commodities means that product displaced from commercial sales will be bought by the government. Nothing is gained for this action and in fact government costs are raised. Federal guidelines designed to ensure that the free products reaches those in need and to others are important to ensure the program operates to maximum effectiveness.

STATEMENT OF ROBERT F. ANDERSON, EXECUTIVE DIRECTOR OF THE NATIONAL CHEESE INSTITUTE, CHICAGO, UNITED STATES OF AMERICA

My name is Robert F. Anderson. I am the executive director of the National Cheese Institute (N.C.I.), headquartered in Chicago, Illinois. On behalf of all N.C.I. members, I am pleased to be invited to talk about the government's current cheese giveaway program and its impact on the industry.

I believe it would be helpful for the subcommittee if I commented briefly on the constituency of N.C.I. It represents the manufacturers and processors of 90 percent of the cheese produced in the United States. N.C.I. numbers among its membership the largest companies in the industry, but the majority of its members are small businesses. In addition, most dairy cooperatives are members of N.C.I. As the subcommittee knows so well, these cooperatives, although frequently quite large, are actually the representatives of individual dairy farmers who are themselves small businessmen.

Our members' primary purpose is to market cheese products for commercial trade. However, because of the dairy price support program, we are also responsible for converting surplus milk into 40-pound blocks and 500-pound barrels of cheddar cheese. The government purchases these products through the Commodity Credit Corporation (CCC), if the private sector does not absorb the full amount of dairy products produced. In this role, we are the link between the farmer and USDA.

N.C.I. is proud of the fact that the idea for a temporary, nationwide giveaway of surplus cheese to the needy grew out of discussions with cheese producers and USDA. We continue to support government programs that feed the truly needy. However, the present cheese giveaway system is not only proving to be inequitable, but also is not providing a solution to the surplus problem. I will discuss that in more detail later.

My principle purpose here today is to talk about the negative economic impact on the cheese industry and its ultimate cost to the taxpayer. The negative impact would exist even if the fraud and other abuses were corrected.

First, the record should reflect that the members of N.C.I. are proud of the products they produce. The U.S. consumer has recognized the nutritional value of cheese, as well as the eating pleasure which it provides. In 1982, Americans consumed almost 20 pounds of cheese per person -- an all-time high. However, only 9.3 pounds -- or less than one-half of the cheese consumed per capita in the United States -- was American cheese, either process or natural. The government giveaway program is distributing essentially only process American cheese; and, of course, sales of this type of cheese have been reduced significantly by the giveaway program. I should point out that a significant portion of the 9.3 pounds is consumed away from home in restaurants and fast food outlets, or as an ingredient in other food. The size of the market for process American cheese, subject to displacement by the giveaway program, has been estimated to be as little as 5 pounds per capita annually. As you know, the government is giving away millions of pounds of its cheese in 5-pound loaves monthly.

As one might suspect, the result of this massive giveaway has caused a serious disruption of the commercial-cheese market in the United States. Since at least 1963 -- and until the giveaway began in January 1982 -- retail sales tonnage of all varieties of cheese increased each year relative to the previous year. The percentage increase in 1981 -- as compared with 1980 -- was almost 4 percent, which was typical of the last five years. When the giveaway program began, the growth rate stopped and then declined for the first time

in 20 years. This continues to an even greater extent in 1983.

In the first quarter of this year, the government distributed 130-million pounds of cheese. On an annualized basis, this is equivalent to 520-million pounds, or over 30 percent of the total U.S. retail sales of all forms and varieties of cheese (1.7-billion pounds) in 1982. In April and May 1983, the government gave away 60- and 55.5-million pounds, respectively. Annualized, this amounts to 693-million pounds, or more than 40 percent of total U.S. retail sales of all cheese in 1982. The percentage of total U.S. retail sales of process American cheese, which this giveaway represents, would be much higher -- well over 50 percent.

The chart attached as appendix "A" shows graphically the tonnage growth trend for all varieties of cheese, natural and process, since January 1980, and how it was affected by the amount of American process cheese distributed by the government via the giveaway program, which began January 1982. It should be noted that growth essentially ceased at the end of the first quarter 1982, and that there has been a negative growth (decline) since the end of the second quarter, 1982. In fact, the decline is accelerating. The expected lag between the government's distribution of cheese and its impact on reported commercial movements out of warehouses, which is the data upon which the chart is based, is apparent.

Appendix "B" illustrates the effect of the giveaway program on the growth trend for process cheese only. Since the giveaway involves 5-pound loaves of process cheese, its impact on the retail process cheese market is more dramatic than its impact on the total natural and process cheese market; and the charts bear this out.

Appendix "C" shows the growth trend for natural cheese only, as affected by the giveaway, and illustrates that the giveaway halted the growth even of natural cheese sales and has precipitated a decline, albeit a small one, compared with the process cheese market.

Appendix "D" shows the growth trend for cream cheese, which is not considered a replacement or substitute for process cheese by consumers and, hence, has not been affected by the giveaway. It substantiates the fact that the precipitous decline in the growth rate of natural and process cheese was caused by the giveaway rather than other factors, such as general economic conditions.

Appendices "E" through "G" show the percent increase and decrease of the total retail cheese category (natural and process), natural cheese alone, and process alone vis-a-vis performance a year earlier. The point in time at which the giveaway program began, January 1982, is noted. These charts show a steady increase in volume (tonnage) over the prior year for each quarter of 1980 and 1981 until the giveaway began. From that time on, growth ceased and a decline vis-a-vis the previous year began.

As a point of reference, in Canada, where there is not a giveaway, these same cheese categories showed increases in this same period. Furthermore, Canada was experiencing the same, or even more severe, economic conditions as those felt in this country.

Any way you look at them, the charts show that the cheese giveaway has seriously disrupted the U.S. commercial cheese market. There are a number of reasons why this has occurred.

In the first place, the government has, of necessity, had to rely upon a makeshift, essentially voluntary, distribution network created solely for the purpose of the giveaway. This network was, and is, simply incapable of distributing cheese in a way which insures that only the truly needy receive free product. As a result, some of these organizations do not concern themselves with who is eligible and how much cheese each person receives. Their primary concern, it seems, is to see that the product is distributed before it spoils. It is also known that a 5-pound loaf of cheese -- while the most

practical size for schools and institutions -- is more than most individuals can use promptly. Some of this cheese is being cut and stored for use later, and some is redistributed by recipients to friends and families not eligible for free cheese.

Furthermore, the problem is not always the inability of an organization to distribute huge volumes, but a deliberate disregard of government guidelines that state who is entitled to free cheese. In reality, cheese is often given to anyone who asks for it ... the affluent and not so affluent, as well as the needy. Many people feel that if the government is giving cheese away, all taxpayers are entitled to it, regardless of their financial situation. In one large southern city, it was reported that the mayor was at the head of the giveaway line, a place he said he was entitled to "because he was a taxpayer." In addition, I think it should be mentioned that, although needy people are receiving free cheese, the giveaway program also fell prey to the greedy. Furthermore, news media reports have exposed cases of fraud and other abuses, both in major cities and small towns. Appendix "H" is a compilation of news reports describing instances of theft of product, which is then sold to restaurants and individuals. In others, groups ask for cash donations before distributing the food, or give it only to their members.

I realize abuses of large programs are not unusual; but, in the case of the cheese giveaway where the quantities exceed the capabilities of the distribution system, there is much greater chance for product to get into the wrong hands. In one survey done in the spring, 20 percent of the people receiving cheese were above the income level stipulated by the government.

Finally, it must be recognized that the needy are and always have been consumers, and that they would have purchased cheese had it not been given to them. In a survey conducted by one company, 96 percent of the recipients of free cheese indicated that they were purchasers of cheese before the giveaway began. Thus, free cheese to many of the needy was a direct replacement for product that would have been purchased.

As one might suspect, the impact of this disruption has fallen directly, of course, upon the manufacturers, processors and retailers of cheese, but also indirectly upon the taxpayer. As noted earlier, many manufacturers of cheese are small businesses that sell to processors. When the processors' needs decrease, they purchase less cheese.

Small cheese manufacturers are among the first to be hurt by a decline in retail sales because many of them do not qualify to sell their cheese to the Commodity Credit Corporation (CCC). Therefore, they lose money and are forced to layoff employees. I have not conducted an official survey ... or even a comprehensive study ... of the N.C.I. members, but discussions I have had with their representatives convince me that many persons who formerly worked on cheese processing lines are now unemployed as a direct result of the giveaway. This number will only increase if the giveaway continues to displace commercial sales.

To the extent that manufacturers must sell their cheese to the CCC, the purpose of the giveaway -- which is a reduction in the government surplus -- is being frustrated. The more cheese is given away, the more commercial sales decline. As a result, the government is forced to purchase more cheese, which goes back into inventory. The effect is an unending spiral and significant cost to taxpayers. Although the increase in CCC purchases does not as yet equal the amount given away, it is directly proportional to the decline in commercial volume. Thus, the net effect is a relatively small decline in the massive government inventory.

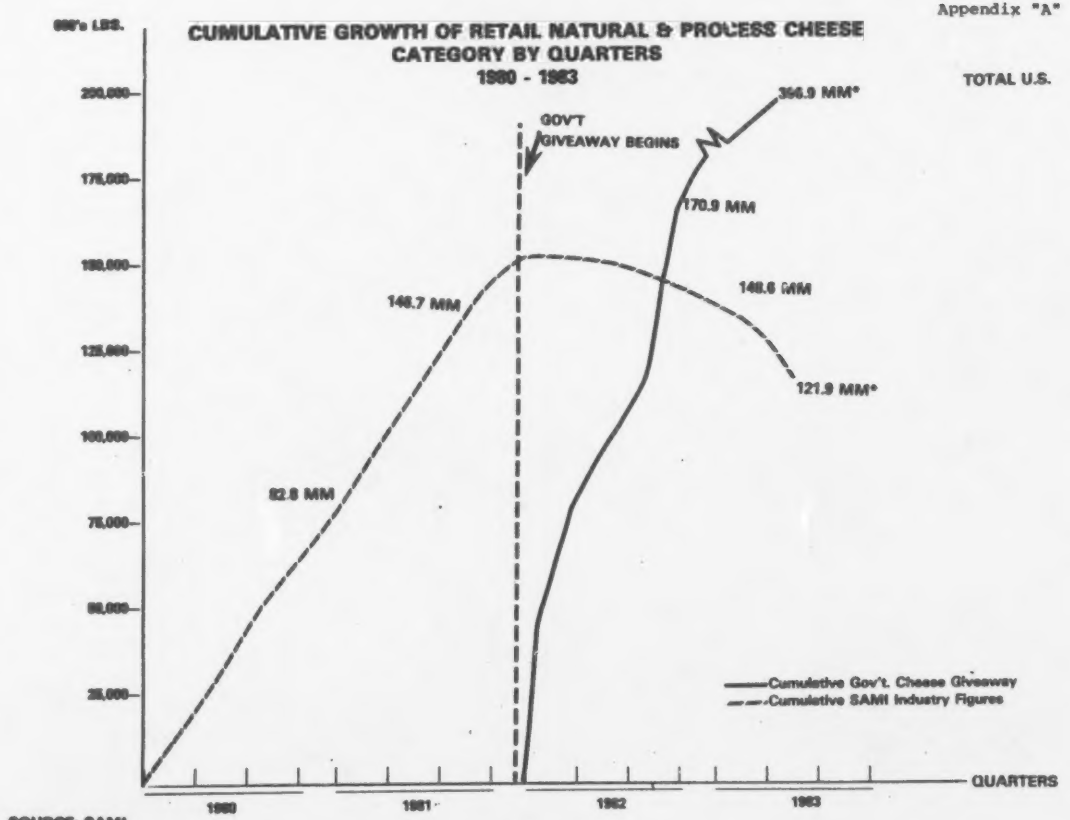
In essence, all cheese manufacturers are being penalized for a

problem that was created through no fault of their own. They have not overproduced cheese. Rather, the dairy price support program encourages farmers to overproduce milk. One of the best ways to store this highly perishable raw material is to convert it into cheese. So when there is surplus milk, cheese manufacturers are performing a service that primarily benefits the milk producer.

Efforts to reduce the cheese surplus through the giveaway have limited value without changes in the U.S. dairy price support program, which is the root of the entire problem. While N.C.I. believes in the price support concept, all segments of the dairy industry over the long term can be healthy only when milk production and consumption of dairy products are in alignment.

What I've presented, and what all of us have heard today from a variety of other concerned organizations, is the need for immediate reform. The members of N.C.I. urge this subcommittee to call upon all sectors of government, industry and special interest groups to work out a solution that feeds truly needy Americans without continued commercial market decline and taxpayer burdens. We would be pleased to be a part of that effort.

Thank you.



SOURCE: SAMI
*TOTAL THROUGH MAY 1983

Appendix "A"

GOVERNMENT CHEESE DISTRIBUTION
(000's)

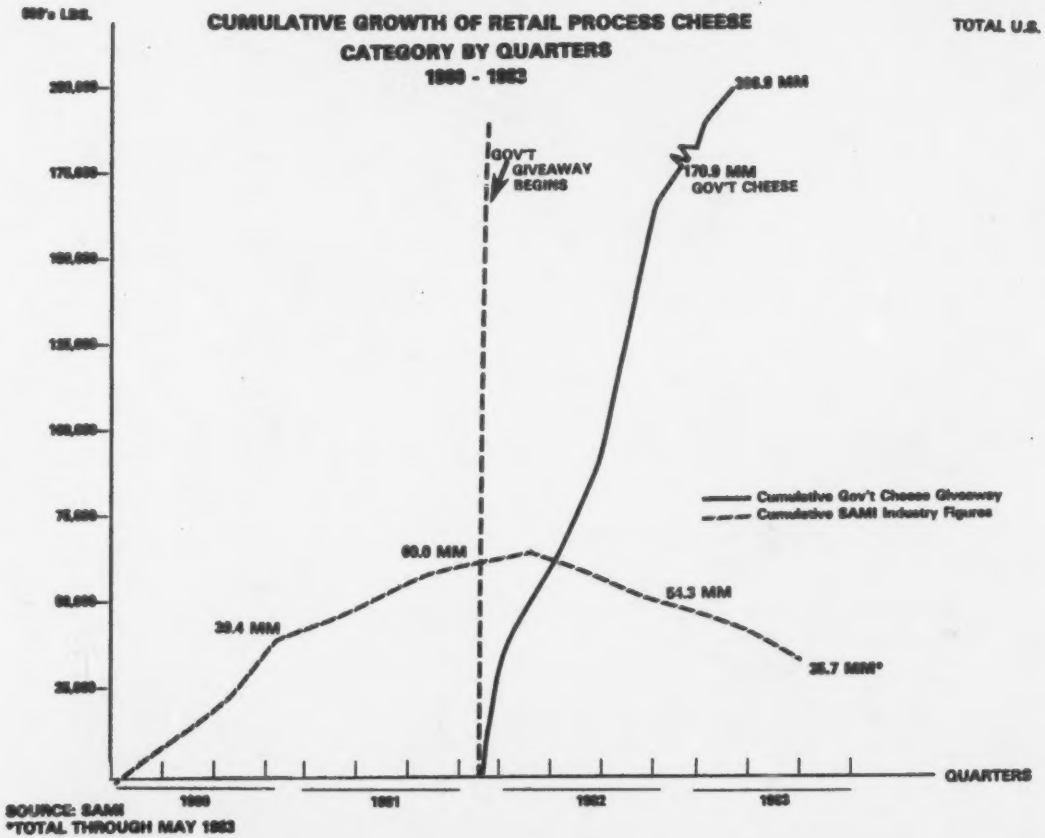
Total U.S.

	TOTAL CHEESE CATEGORY			GOVT. CHEESE		
	Lb. Volume	Lb. Chg. vs. Yr. Ago	% Chg. vs. Yr. Ago	Govt. Cheese	Cumm. Govt. Cheese	Per Capita Distribution
APR/MAY 1983	243,129	(11,500)	(4.7%)	96,500	396,865	.425
1ST QTR 1983	387,100	(15,200)	(3.8%)	129,439	300,365	.569
YEAR END 1982	1,705,200	1,900	0.1	170,926	170,926	.752
4th Qtr.*	530,900	(1,300)	(0.2)	60,234	170,926	.2651
3rd Qtr.	387,100	(3,200)	(0.8)	30,560	110,692	.135
2nd Qtr.	385,000	(200)	N/C	41,608	80,132	.183
1st Qtr.	402,300	6,800	1.8	38,524	38,524	.169
YEAR END 1981	1,703,300	63,900	3.9			
4th Qtr.*	532,200	12,600	2.4			
3rd Qtr.	390,200	15,600	4.2			
2nd Qtr.	385,200	20,500	5.6			
1st Qtr.	395,500	15,200	4.0			
YEAR END 1980	1,639,200	82,800	5.5			
4th Qtr.*	519,700	30,100	6.2			
3rd Qtr.	374,600	22,300	6.3			
2nd Qtr.	364,700	12,800	3.6			
1st Qtr.	380,300	17,600	4.9			
YEAR END 1979	1,556,600	31,500	2.1			

* 16 WEEKS INSTEAD OF 12 WEEKS (SAMI)

Appendix "B"

TOTAL U.S.



SOURCE: SAMI
*TOTAL THROUGH MAY 1983

Appendix "B".

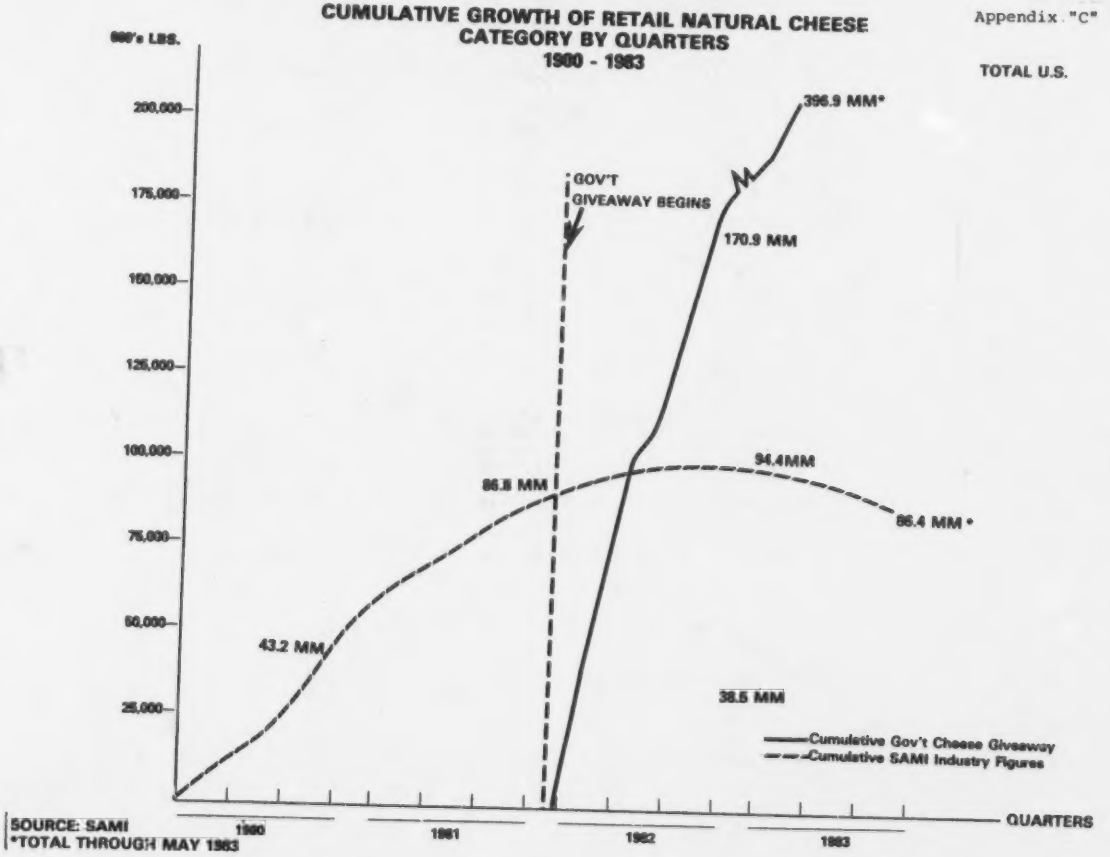
GOVERNMENT CHEESE DISTRIBUTION
(000's)

Total U.S.

	TOTAL PROCESS CHEESE CATEGORY		
	Lb. Volume	Lb. Chg. vs. Yr. Ago	% Chg. vs. Yr. Ago
APR/MAY 1983	122,140	(7,215)	(5.6%)
1ST QTR 1983	195,000	(11,400)	(5.5)
YEAR END 1982	873,700	(5,700)	(0.6)
4th Qtr.*	269,500	(1,000)	(0.3)
3rd Qtr.	201,000	(4,000)	(1.9)
2nd Qtr.	196,800	(3,300)	(1.7)
1st Qtr.	206,400	2,600	1.3
YEAR END 1981	879,400	20,600	2.4
4th Qtr.*	270,500	4,300	1.6
3rd Qtr.	205,000	4,800	2.4
2nd Qtr.	200,100	7,400	3.9
1st Qtr.	203,800	4,000	2.0
YEAR END 1980	858,900	39,400	4.8
4th Qtr.*	266,200	14,700	4.8
3rd Qtr.	200,200	11,800	6.7
2nd Qtr.	192,700	5,400	2.9
1st Qtr.	199,800	7,700	4.8
YEAR END 1979	819,500	7,200	0.9

* 16 WEEKS INSTEAD OF 12 WEEKS (SAMI)

Appendix "C"


CUMULATIVE GROWTH OF RETAIL NATURAL CHEESE CATEGORY BY QUARTERS
1980 - 1983
TOTAL U.S.
000's LBS.
200,000
175,000
150,000
125,000
100,000
75,000
50,000
25,000
396.9 MM*
GOV'T GIVEAWAY BEGINS
170.9 MM
94.4MM
86.8 MM
86.4 MM *
43.2 MM
38.5 MM
Cumulative Gov't Cheese Giveaway
Cumulative SAMI Industry Figures
1980
1981
1982
1983
QUARTERS
SOURCE: SAMI
*TOTAL THROUGH MAY 1983

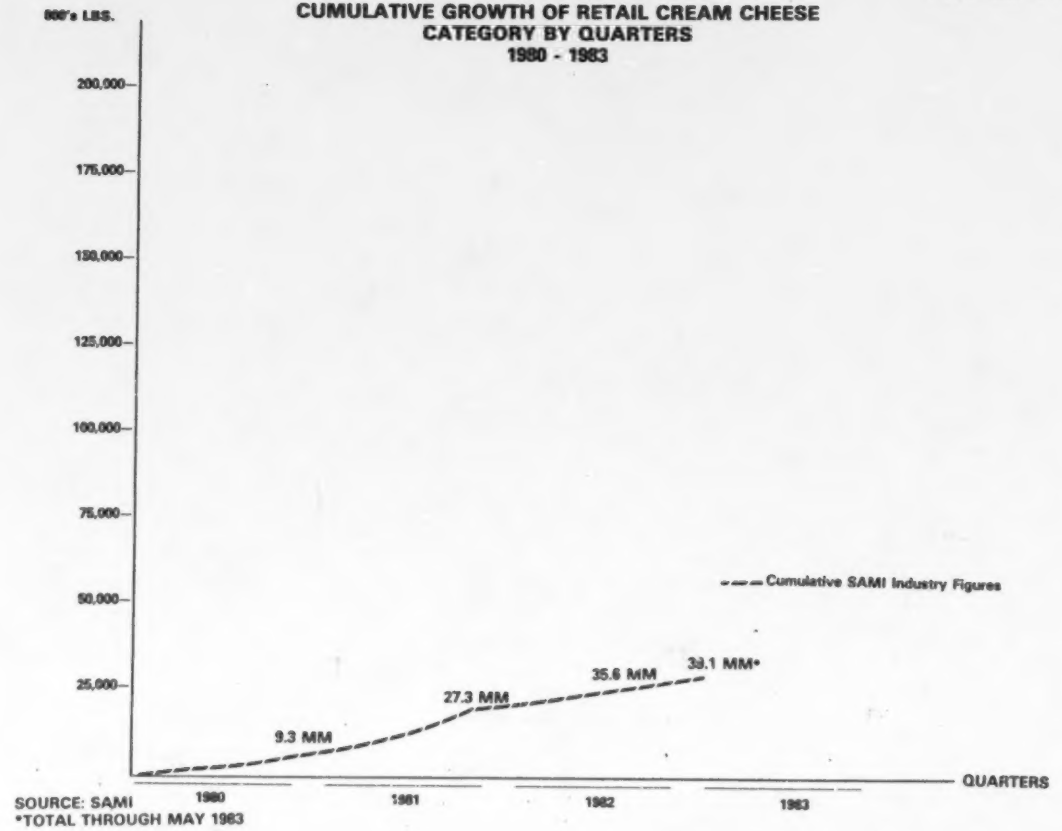
Appendix "C"

GOVERNMENT CHEESE DISTRIBUTION
(000's)

Total U.S.

	TOTAL NATURAL CHEESE CATEGORY		
	Lb. Volume	Lb. Chg. vs. Yr. Ago	% Chg. vs. Yr. Ago
APR/MAY 1983	120,989	(4,267)	(3.4%)
1ST QTR 1983	192,100	(3,720)	(1.9)
YEAR END 1982	831,500	7,600	0.9
4th Qtr.*	261,400	(300)	(0.1)
3rd Qtr.	186,000	700	0.4
2nd Qtr.	188,200	3,100	1.7
1st Qtr.	195,900	4,100	2.2
YEAR END 1981	823,900	43,600	5.6
4th Qtr.*	261,700	8,300	3.3
3rd Qtr.	185,300	10,900	6.2
2nd Qtr.	185,100	13,100	7.6
1st Qtr.	191,700	11,200	6.2
YEAR END 1980	780,300	43,200	5.9
4th Qtr.*	253,400	15,400	6.5
3rd Qtr.	174,400	10,500	6.4
2nd Qtr.	172,000	7,400	4.5
1st Qtr.	180,500	9,900	5.8
YEAR END 1979	737,100	24,200	3.4

* 16 WEEKS INSTEAD OF 12 WEEKS (SAMI)



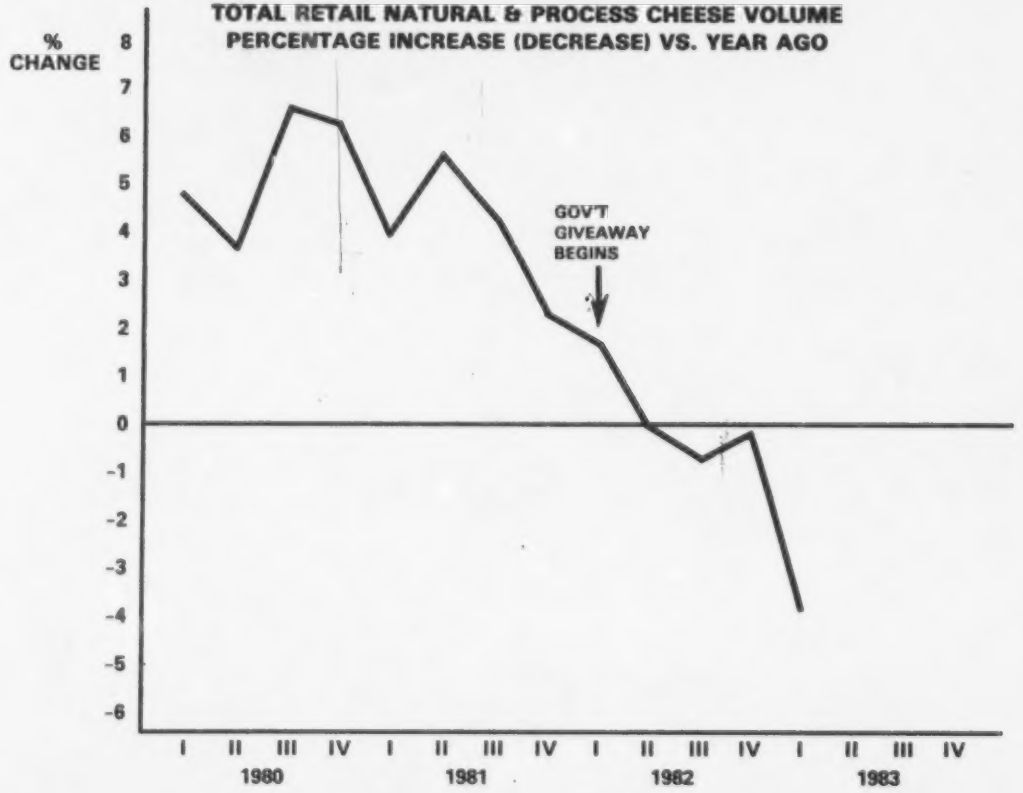
SOURCE: SAMI
*TOTAL THROUGH MAY 1983

GOVERNMENT CHEESE DISTRIBUTION
(000's)

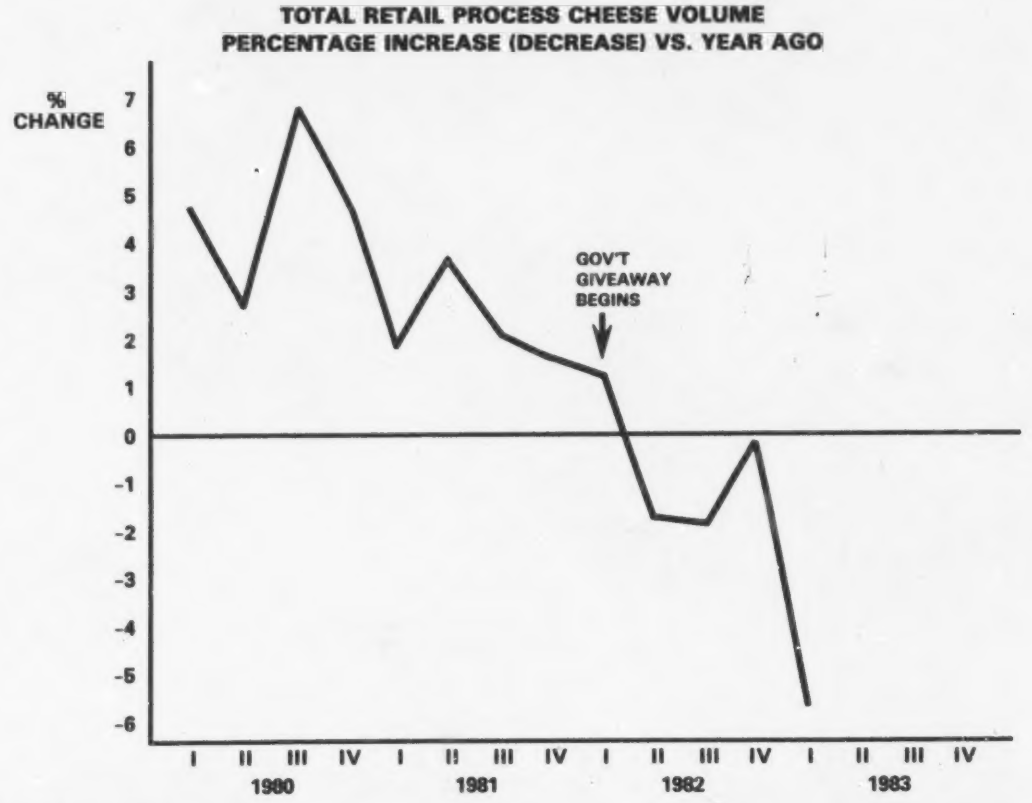
Total U.S.

	TOTAL CREAM CHEESE CATEGORY		
	Lb. Volume	Lb. Chg. vs. Yr. Ago	% Chg. vs. Yr. Ago
APR/MAY 1983	23,264	393	1.7%
1ST QTR 1983	36,932	3,139	9.3
YEAR END 1982	176,756	8,253	4.9
4th Qtr.*	72,856	2,891	4.1
3rd Qtr.	34,294	2,554	8.0
2nd Qtr.	35,813	1,854	5.5
1st Qtr.	33,793	954	2.9
YEAR END 1981	168,303	17,969	11.9
4th Qtr.*	69,965	7,541	12.1
3rd Qtr.	31,740	4,544	16.7
2nd Qtr.	33,959	4,780	16.4
1st Qtr.	32,839	1,104	3.5
YEAR END 1980	150,534	9,342	6.6
4th Qtr.*	62,424	4,818	8.4
3rd Qtr.	27,196	1,065	4.1
2nd Qtr.	29,179	290	1.0
1st Qtr.	31,735	3,169	11.1
YEAR END 1979	141,192		

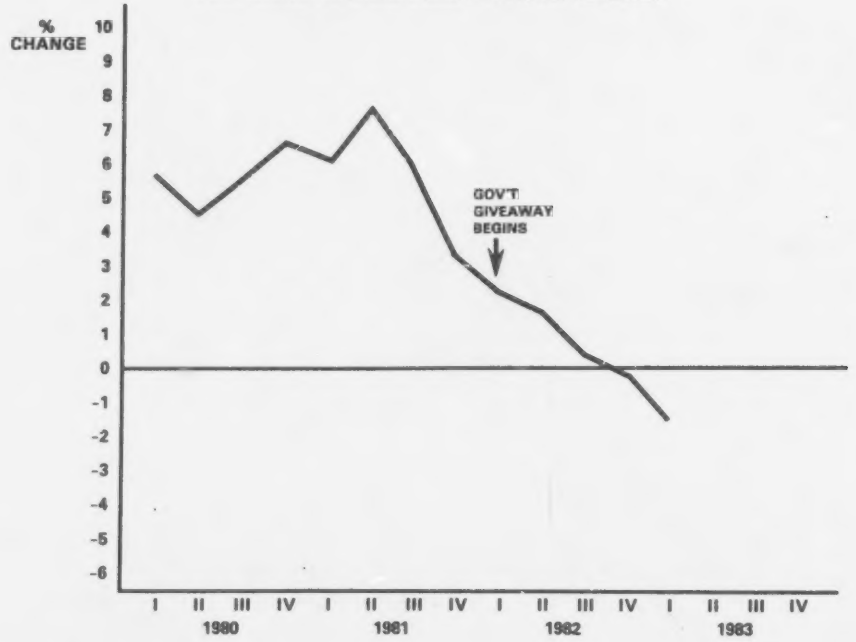
* 16 WEEKS INSTEAD OF 12 WEEKS (SAMI)


TOTAL RETAIL NATURAL & PROCESS CHEESE VOLUME
PERCENTAGE INCREASE (DECREASE) VS. YEAR AGO
% CHANGE
8
7
6
5
4
3
2
1
0
-1
-2
-3
-4
-5
-6
GOV'T GIVEAWAY BEGINS
I II III IV I II III IV I II III IV I II III IV
1980
1981
1982
1983

SOURCE: SAMI


TOTAL RETAIL PROCESS CHEESE VOLUME
PERCENTAGE INCREASE (DECREASE) VS. YEAR AGO
% CHANGE
7
6
5
4
3
2
1
0
-1
-2
-3
-4
-5
-6
GOV'T GIVEAWAY BEGINS
I II III IV I II III IV I II III IV I II III IV
1980
1981
1982
1983
SOURCE: SAMI

RETAIL NATURAL CHEESE VOLUME
PERCENTAGE INCREASE (DECREASE) VS. YEAR AGO



SOURCE: SAMI

(APPENDIX H--TV CLIPS)

BURRELLE'S
75 EAST NORTHFIELD AVENUE / LIVINGSTON / NEW JERSEY 07039
(201) 992-6600 / (212) 227-5570 / (800) 631-1160

June 10, 1983
6:00-7:00 PM
WCBS-TV Channel Two
New York City
News at Six

Rolland Smith reporting:

Good evening. New York City police officials were watching our broadcast last night and just a few hours after they saw Arnold Diaz's report on the illegal sale of surplus cheese stolen from the Federal giveaway program, police swooped down on a Greenwich Village warehouse. Arnold was there as the police made their raid and he tells us what they found inside.

Arnold Diaz:

Last night, we showed you hidden camera pictures of this man selling us government cheese, cheese that's illegal to sell. The warehouse at Cosmo's market, on Manhattan's lower West Side was piled high with the surplus cheese. The owner of the market insisted on ripping off the government label before he'd hand over the case. (Here, a film is shown.)

Man: What's the problem?

Market Owner: I explain to you. You see that? It don't be sold. (sic)

Man: Why not?

Market Owner: That is for the government.

Man: What do you mean?

Market Owner: Read it.

Man (Reads the label): Not to be sold or exchanged. So where do you get it?

Market Owner: Somebody give me from welfare.

Diaz: Immediately after our broadcast, police from the major case squad came to our studios to pick up the cheese we had purchased. With solid evidence of a crime, evidence provided by our investigation, detectives were able to con-

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vince a judge to issue a search warrant for the police to raid the Cosmos market.

It's just about two in the morning and the police have been staking out Cosmos market since right after our report, on the six o'clock news. They were waiting for the owner of the market to come and try to move that stolen government cheese out and, sure enough, the owner showed up less than an hour ago and the police moved in to make their bust.

Inside the Cosmos market, detectives found what they hoped would be there--the government cheese, still in the original Agriculture Department boxes, the labels still intact with the clear message, "Not to be sold or exchanged." The police arrested the man who had sold us the cheese; his name is George Bausis, the owner of Cosmos market. He is charged with possession of stolen property, a felony. Also arrested on the same charge, two other men who were with Bausis. The police confiscated the one hundred and fifty cases of stolen government cheese, that's four thousand five hundred pounds of it paid for with our tax dollars and intended for the poor and needy but, as we reported last night, legitimate cheese wholesalers like Morty Epstein, from U.S. Ag, tells us the problem is widespread with thousands of cases of government cheese being sold illegally to restaurants, diners, and coffee shops. (Here, a film is shown.)

Epstein: And they come to me and they give me their order--thirty, forty, different items, American cheese is scratched off. I say, why? And they tell me, "Well, my customers don't eat it. Why? Because I have the government cheese.

Diaz: Well, at least one illegal operation is now out of business, an operation the police learned about through our report.

(To Capt. Elson Gelfand, N.Y.P.D.): Is there any reason to believe you're any closer to finding out who's behind this?

Captain Gelfand: No question about it, no question about it. You're certainly very helpful. The information you provided us was really the beginning and certainly very helpful to ultimately solving this situation.

Diaz: As for the forty-five hundred pounds of cheese confiscated, it has been turned over to the state and will, hopefully, now be given out to those who really need it.

Now, as I reported last night, a major problem with the

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cheese program is that the Federal government did not provide any money to monitor the distribution of the cheese. that made it very easy to rip off the program. Ironically, just last week, the Feds decided to give New York State three million dollars to administer the cheese giveaway but it's too late, all the cheese has been given out with a lot of it, apparently, ending up in the wrong hands.

Now, once again, the city has asked us to pass on the number of the cheese hot line for anyone with information about the rip-offs. The number is area code (212) 966-5070 operating between nine and seven on weekdays and we will continue to follow developments in the search to find out where the big leak in the cheese program is coming from; Carol.

Carol Martin:

Arnie, you're really good. You've been instrumental in exposing a lot of problems. Were the police quicker to jump on this one than you had seen recently?

Diaz: Yes, because they believed that the guy would try to move that cheese out right away, as soon as he knew it had been on the air so, as soon as we were on the air, the police moved in and staked it out while they went to get a search warrant to make sure the guy didn't try to move it out in the meantime.

Martin: And move the evidence away. Thank you very much.

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June 14, 1983
6:00-7:00 PM
WCBS-TV Channel Two
New York City
News at Six

Tony Guida reporting:

Good evening. When Channel Two News reported last week that government cheese intended for the poor was being sold to area restaurants, police moved in and arrested the sellers. But the police raid left some obvious unanswered questions, like how the merchants charged in the scam got hold of the cheese in the first place. Today, as investigative correspondent Arnold Diaz reports, police got some of the answers.

Arnold Diaz:

Police now know where this stolen government cheese came from. It was last Friday when they moved in on the Cosmos wholesale market on Washington Street in Greenwich Village. There they found one hundred and fifty cases, almost five thousand pounds of government surplus cheese. Our hidden camera investigation documented the fact that the owner of Cosmos was selling the stolen government cheese intended for the poor. We showed how he would first rip off the government label, the label that said the cheese was not to be sold. After our report the police busted Cosmos, arrested the owner, and then began tracing the lot numbers on the side of the cartons of cheese to see how Cosmos market got ahold of it.

The police have now determined that all of the confiscated cheese was originally delivered by the federal government to the Protestant Conference of Churches in the Bronx. They're made of about fifty different churches, and altogether they got deliveries of more than eight hundred thousand pounds of surplus government cheese, cheese that was supposed to go to the needy. Obviously, some of it did not. The Reverend Timothy Birkette is the director of the Protestant Council of Churches and Clergy. He says he predicted there would be problems with the cheese program from the very beginning, because there was no money provided to administer the giveaway.

Reverend Birkette: You could go so far with volunteers and then you find that there's a tier in how far they will, and how much work they will, and how much time will it

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take before they stop being volunteers. And if a volunteer is voluntary, he can very easily be won over by money coming from an opposite source. And so, I felt that it was important that we have administrative money.

Diaz: The problem apparently is that after the federal government delivered all the cheese, they just washed their hands clean of it, and there was no money and no way for the Protestant Conference to deliver all that cheese to the individual churches, so it was up to the churches to come to the warehouse here and collect it and, apparently, it was at that point that the system broke down.

Reverend Birkette: Some of the churches were using private truckers and they were paying people to pick up their cheese, because they didn't have a vehicle. The private trucker who they hired in faith to deliver probably absconded cheese. We did get the calls that they did not receive it.

Diaz: The police still don't know exactly who managed to take out of the warehouse cheese they either were not entitled to or did not deliver to its intended destination. And even though all the cheese from the busted Kosmos market has been traced to one source, I'm told it is highly likely that much more cheese involving other groups was funneled away from the poor and needy and instead sold to individual markets and restaurants. The police have some other active leads also and their investigation is continuing, as is ours. Interestingly, no government official connected with the cheese program will agree to give me an interview. None of them wants to be publicly associated with the fraud and the failures that have plagued the massive cheese giveaway, but privately they tell me there will be many changes made before the next load of cheese is distributed sometime this fall.

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(201) 992-6600 / (212) 227-5570 / (800) 631-1160

May 24, 1983 ACCOUNT NUMBER
6:00-7:00 PM
WLS-TV(ABC) Channel Seven
Chicago
Eyewitness News (Seven on Your Side)

Joel Daly reporting:

Since the first of the year, Cook County has received five and a half million pounds of free government surplus cheese for the county's poor and elderly. Nearly half of it has gone to an agency in the Englewood area, which is now suspected of converting that program into a profitable enterprise. John Steinberg joins us now with an exclusive report.

John Steinberg reporting:

Thank you, Joel. Illinois does have a big free cheese program, and most of that government cheese is given away right here in Cook County. One organization, Self-Help Action of Chicago, gets most of that cheese. They've been getting enough to give one hundred fifty thousand of you each a block of cheese every month. But now their distribution procedures have been questioned.

From that first cheese day, back in February of '82 when seven thousand hungry people waited in line for a free brick of cheese, Self-Help Action of Chicago, SHAC, as it's known in the community, learned firsthand of the lure, free food giveaways. Cheese was the ideal bait--the foolproof way to entice people into SHAC's financially struggling co-op, and trap them into buying memberships. A membership fee is required for shopping in the SHAC co-op, but it's illegal to require membership in order to receive government cheese or greater Chicago Food Depository food distributed here. But, a SHAC executive said that wasn't true. He said food depository free food was locked up in here where no one could steal it.

Delbert Gibson (SHAC Administrator): There's some other items inside here, and I have some other things I want to show you in this cooler.

Steinberg: Gibson also denied requiring membership to get government cheese.

Gibson: I had two truckloads today, and I've got one more coming after supper to be unloaded.

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Steinberg: Two truckloads is over sixty, seventy thousand pounds, right?

Gibson: It's about eighty thousand pounds.

Steinberg: Two truckloads.

Gibson: Right.

Steinberg: You get twenty of those a month.

Gibson: Right. And I get no pay from the federal government or anyone.

Steinberg: Dorothy Shavers founded SHAC twelve years ago. She also denied requiring memberships or selling food-depository free food or government cheese.

Shavers: If we were paying--charging people, we would be millionaires. All these people volunteer to keep this program open.

Steinberg: How many members do you have here?

Shavers: Fifteen thousand. Okay?

Steinberg: And the yearly dues are seven dollars.

Shavers: Three--three or five--three or seven. Yeah.

Steinberg: Senior citizens, three--others, seven.

Shavers: Yeah. But you don't have to join to get anything.

Steinberg: Our Seven on Your Side investigation has proven Dorothy Shavers wrong. Here's a sample of what you'll see tomorrow night when we document how free cheese has become big business in Cook County. (Shows clips from next program.) That much cheese has sold a lot of SHAC memberships and helped some politicians right here in Chicago. We'll tell you about that tomorrow and what action the state is taking to make sure government cheese is being given away totally free.

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May 25, 1983
6:00-7:00 PM
WLS-TV(ABC) Channel Seven
Chicago
Eyewitness News

Joel Daly reporting:

The state of Illinois is taking action against one of the distributors of free government cheese--this following an investigation by Seven on Your Side. Jon Steinberg joins us with more. Jon.

Jon Steinberg reporting:

Thank you, Joel. The organization is Self-Help Action of Chicago--SHAC, as it's known in the community. And it's been receiving half of all government cheese distributed in Cook County--and that's almost eight hundred thousand pounds every single month. Seven On Your Side's investigation showed that SHAC can't document what happened to much of the cheese it received for distribution.

In addition to the cheese it distributes here to individuals, SHAC claims to give churches, block groups, and clubs almost three hundred fifty thousand pounds of cheese every month. But our investigation revealed that some of those groups don't exist. Some are political offices. And most, such as this one on South Eighty-Third, requires SHAC memberships--and that's against the law.

Delores Davenport (SHAC Member): You had to pay three dollars for it.

Steinberg: Plus a dollar transportation?

Davenport: Plus a dollar transportation. I was asking them what about people that are on public aid--how do they get theirs? And they said that they don't have any free give-out there.

Steinberg: So Seven on Your Side cameraman Dave Williams tried to get some cheese. Sure enough, without the money for a SHAC membership and a dollar for transportation costs, he was sent away empty handed. Lula Dillard was running the place.

Dillard: I'm only following instructions, okay?

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Steinberg: When I spotted the cheese and butter, Dillard decided she'd had enough. (Verbal argument.) If they go to 5940, it's free. But if I go and bring it as a volunteer, it's not free.

Unidentified Woman: Miss Dillard. Miss Dillard. You don't even have to talk to them.

Steinberg: Okay. Thank you, Miss Dillard.

Dillard: Oh sure! Thank you, Miss Dillard. (Gives a shove to Steinberg.) Oh sure!

Steinberg: That wasn't Dillard's only sales location for supposedly free government cheese. We found three others where she distributed over thirty-five hundred pounds of cheese and butter every month--always requiring SHAC membership and a buck a head transportation cost. This shop was one of those places. Do they all have to have the SHAC membership cards?

Mrs. Stegner (South Chicago Ceramics): Yes. Yes. They have it all right here. I'll show you. See, what they do is pay their three dollars.

Steinberg: How much does the transportation cost?

Stegner: It all depends.

Steinberg: SHAC also claims to distribute cheese to clubs which, Seven on Your Side discovered, don't exist--such as some sort of group called Efficiency Security. What was Efficiency Security?

Edward Williams (Building Tenant): A security company. They was trying to hire people that could be security guards and things of that nature.

Steinberg: Are they supposed to be giving out cheese--Efficiency Security? Collecting it?

Williams: Oh God, no. They've been gone for years.

Steinberg: SHAC also claims they distribute over three hundred pounds of cheese every month at the Hyde Park Community Center at 829 East Hyde Park Avenue. The problem is 829 East Hyde Park Avenue is a park. SHAC also distributes cheese in Democratic ward offices, although they hide that fact. Not only was cheese being passed out here at the twenty-first ward office, but SHAC memberships were also required. The story is the same here at the twenty-

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second ward office. And then there's twenty-eighth ward democratic committeeman Carothers, who we caught receiving a truckload of government cheese during his losing reelection fight for alderman.

Bill Carothers (Twenty-Eighth Ward Committeeman): I don't know anything about any cheese.

Steinberg: Two days before the primary, they were unloading a lot of cheese into here.

Carothers: I don't know anything about it.

Steinberg: Because of this investigation, the state has cut off SHAC's supply of cheese. The state will now pay for proper cheese distribution in Cook County. That way, everyone who should get free cheese, will. And no one will have to buy any memberships or pay any fees, whatsoever.

STATEMENT OF LARRY MINEAR, MEMBER, BOARD OF DIRECTORS, INTERRELIGIOUS TASKFORCE ON US FOOD POLICY

I am Larry Minear, member of the Board of Directors of the Interreligious Taskforce on US Food Policy and representative for development policy of Church World Service/Lutheran World Relief.

The Taskforce is a coalition of over two dozen national Protestant, Roman Catholic, Jewish, and ecumenical agencies whose representatives work together to secure justice for the world's poor and hungry people. While the Taskforce speaks only for itself and not for the religious bodies that participate in its work, Taskforce testimony generally is consistent with the public policy recommendations adopted by those bodies. We welcome this opportunity to share our views on emergency food distribution in the US, especially as it relates to world food security.

The food security situation in this country increasingly resembles the food situation of the world as a whole. Abundant food supplies exist side by side with mounting and unmet human need. This paradox indicates that the food problem, both globally and here in the US, is primarily one of distribution rather than production, of poverty and inadequate purchasing power rather than of food shortages per se. With a significant amount of the world's major food commodities at its disposal, it is incumbent upon the US government to use these valuable resources in the service of human needs here and abroad. That is clearly the intent of S 17 and other similar measures.

The Taskforce supports the major purpose which S 17 and Title II of the emergency jobs bill is trying to accomplish--namely, to free up existing commodities for use in domestic emergency food distribution programs as needed. We would also support--with several major qualifications--the continuation of that program for an additional year, as is the apparent intent of the current reconsideration of S 17. However, our support of an extension of the existing emergency nutrition component of the jobs bill is contingent on proper legislative safeguards to assure that the program will:

(1) supplement rather than displace existing federal nutrition programs or reduce the resources of such ongoing activities;

(2) extend rather than reduce regular program benefits to which an individual is entitled (e.g., by not counting against those benefits commodities received under an expanded emergency distribution program);

(3) be responsive to actual emergency nutrition needs rather than press commodities on private agencies in forms or amounts not needed, desired, or usable by them;

(4) not have a depressing effect on producer prices; or,

(5) avoid meeting nutritional needs at home in ways which would jeopardize the ability of the Food Security Reserve to respond to food crises in developing countries.

The balance of our statement will focus on the food reserve issue, the assigned subject for this panel.

Approved by Congress in 1980 and established in 1981, the Food Security Reserve (FSR) assures the availability of wheat for emergency international food assistance under Title II of PL 480 in periods of world shortages and high prices. While a relative abundance of grain on world markets has meant that to date the FSR has not been tapped, such favorable conditions are unlikely to continue indefinitely. We all vividly remember the tragic

circumstances of 1972-74 when grain shipments under PL 480 dropped from 7.9 million tons to 2.5 million tons, leaving the US unable to respond fully to acute humanitarian need. The FSR was established to assure that this would not happen again. To reduce its size now for other than its original purpose might make the reserve less available when unforeseen food needs and tighter commodity supplies develop in the future.

The Taskforce supports the FSR and will support its reauthorization next year for another four years with only minor modifications. Thus, we oppose various legislative proposals which would tap the reserve for extraneous purposes.

S 17 would authorize the use of up to 500,000 tons of reserve wheat for domestic distribution if other wheat stocks are not available. It also calls for the replenishment by October 1, 1984 of any stocks which might be used. Our concerns and recommendations with regard to use of that wheat are as follows:

(1) Many of the food bank and emergency food distribution organizations that have been in touch with the Taskforce since this proposal first emerged have reported a major increase in requests for food. Few, however, have indicated a need for flour or bread. Those that use flour and bread are apparently receiving them in sufficient quantity from nongovernmental sources. This raises the serious question of the need for the wheat provision at all, a need which we have not seen documented by USDA or others. Unless or until the committee receives a different assessment of the need, we recommend that it make Section 2(e) provisional on positive findings from a more complete survey of potential users. In any event, the quantity involved should be strictly limited based on need, as indicated in (3) above.

(2) The FSR was enacted with provisions for isolating the grain rather tightly from the market. This was done at the insistence of producers, who have seen reserves used in the past to depress prices, and also to guarantee that grain would be available for Third World emergencies when most needed. In addition to undermining the potential responsiveness of PL 480 to future emergencies, the proposed use of the reserve would have an unwelcome price depressing impact during the same period that grain from the 1983 payment in kind program (PIK) would be sold. With prices low and wheat in abundance, now is precisely the time to buy such wheat as may be needed for domestic distribution in the open market to firm up prices.

We therefore recommend that authority to purchase such grain as needed be substituted for authority to draw down the reserve. Such authority could be in terms of either a tonnage level or a dollar figure. A purchase substitute would entail no greater cost than the existing provision, which calls for replenishment following any draw down. If prices should rise over the next 18 months due to PIK or increased market demand, it may prove less expensive to purchase wheat sooner rather than later.

(3) If for any reason the authority to use the reserve is granted, we recommend that the maximum combined tonnage of reserve wheat made available by S 17 and the jobs bill be no more than 300,000 tons. Higher levels have been proposed by some for both emergency domestic food distribution and the proposed export PIK program. We vigorously oppose more extensive borrowings from the reserve for domestic distribution and oppose outright the provision of S 822, as reported by the committee, that would authorize the use of up to 1.5 million tons of FSR wheat for export promotion purposes.

The FSR itself contains a provision authorizing up to 300,000 tons to be used for emergency Title II food aid needs in Third World countries even when the price and supply conditions which would trigger the full four million tons do not exist. Since that 300,000 tons is an annual allowance, the reserve by the end of FY 84 could be drawn down by 600,000 tons for PL 480

Title II emergencies alone. Therefore, an S 17 figure in excess of 300,000 tons could have the effect of leading to a depletion of the reserve by more than 900,000 tons; a large draw down indeed in years when commodities are available at low cost on the market.

(4) We recommend that, to safeguard the integrity of the reserve, the current replenishment provision in S 17 should be strengthened. It is reassuring that S 17 mandates that the reserve is to be at full capacity no later than October 1, 1984. However, it would be helpful, as a means of achieving such replenishment, for the reserve to be given first priority claim on Commodity Credit Corporation (CCC) wheat inventories as they are rebuilt. If inadequate CCC stocks exist to cover replenishment needs, then CCC purchases in the market would be required.

In conclusion, I wish to comment on the contention that since the reserve has not been tapped in its first three years for its intended purpose, we should therefore not be too exercised about using it for expanded domestic feeding activities now. The purpose of a reserve, we believe, is to be on call for stated emergencies. If the emergencies do not occur, the reserve should not be faulted or deemed unnecessary. To suggest an analogy, we are unaware of proposals to reduce the assets of the Federal Deposit Insurance Corporation because of the recent absence of domestic bank failures.

Moreover, four million tons of wheat in reserve is not an inordinate amount in the face of the current deterioration in Third World food supplies. The UN Food and Agriculture Organization's most recent report estimates food import needs of the following magnitudes: Ethiopia, 200,000 tons; Mozambique, almost 400,000; Zambia, 90,000; Cape Verde, 32,500; Nepal, 40,000; and so on. A total of 27 countries, 16 of them in Africa, have abnormal food shortages. Another 15, including food exporters such as Australia, South Africa, and Zimbabwe, report unfavorable growing conditions. Developing country commercial and concessional food imports, currently at about 100 million tons annually, are expected to rise to about 140 million by 1985. US commercial sales will undoubtedly fill some of this increased need, but part of the shortfall will continue to need to be met by food aid transfers. Given the magnitude of Third World food import needs, a 4 million ton PL 480 reserve hardly seems excessive.

The Taskforce supports both PL 480 and federal nutrition programs and is on record favoring the reasonable expansion--and improvement--of each. We simply urge caution on the committee's part in the current circumstances so that hard-won gains in both programs will be protected and current food abundance used wisely now and in the future.

We appreciate this opportunity to share our concerns and will be happy to answer any questions you may have.

STATEMENT OF PENROSE HALLOWELL, SECRETARY,

PENNSYLVANIA DEPARTMENT OF AGRICULTURE

Mr. Chairman, I appreciate the opportunity to have this testimony presented before the Subcommittee on Nutrition. The Pennsylvania Department of Agriculture bears the responsibility in our state for contracting with the U.S. Department of Agriculture for distribution of cheese, butter and other surplus food commodities under the Needy Family Program.

Since January of 1982, Pennsylvania has distributed more than 19.5 million pounds of cheese and more than eight million pounds of butter to its needy citizens. This record, which places Pennsylvania among the top states in distribution, would not have been possible were it not for an amazing volunteer effort on behalf of hundreds of charitable, non-profit and service organizations in our commonwealth. In several specific areas, the distribution of cheese and butter has been handled by food banks, and they have done an admirable job. However, the volunteer organizations truly made the distribution possible.

The system we have developed for delivery in Pennsylvania, was developed after more than a year of experience. At one point in time, the Pennsylvania Department of Agriculture had signed distribution agreements with 396 local, county and regional organizations. Now, however, we are working through the County Commissioners in each of our 67 counties to have a sole responsible coordinating agency in each county.

These agencies and organizations share many concerns of the Pennsylvania Department of Agriculture. Among the greatest concerns is the accountability which is requested by the U.S. Department of Agriculture through the program.

This poses a potential problem for the future of this and other surplus distribution programs, and frankly, the problem may arise from a failue of U.S.D.A. to assume the responsibilities it should accept.

We must deal, as must our local distribution agencies, with U.S.D.A. at several levels. On one hand, U.S.D.A. officials are telling us,"don't worry about the pr with accountability in distribution. The main thing is to get the cheese and butter to needy people. And don't worry with record retention past three months."

On another hand, auditors from the U.S.D.A. are requesting that complete records be retained for at least three years--a burden both on the distributor and the state agency which must agree in writing on accountability.

Perhaps the best interests of those needy families and all parties involved would be served by a simple requirement that local agencies secure the name, address, and category of eligibility for each individual receiving surplus food products, accompanied by some certification by the recipient that he or she is truly eligible. Many agencies and organizations have to date refused participation because they fear the effects of an audit in the future. U.S.D.A. has to date sucessfully transferred the accountability to the states and volunteer organizations, but such will not likely encourage continued participation in the program.

The problem of varying quantities of commodities available for distribution has created additional hardships for both the state and local distributing agencies in Pennsylvania, not the least of which is a negative public reaction to "cuts" in the quantities available. The U.S. Department of Agriculture has reduced the amounts of cheese being made available to the states after a survey showed displacement in the commercial marketplace.

However, in Pennsylvania, no evidence of displacement has arisen. Staff of the

Pennsylvania Department of Agriculture have contacted approximately 20 cheese companies and representatives of the state's grocery and food merchants associations, and not one reported a displacement of American or cheddar cheese in their markets.

The negative public reaction to cutbacks in availability of cheese has been seen also in availability of other surplus commodities. As other commodities become available at the national level, the news media report this, and the public expects to see these commodities at the local level.

In some cases, quantities have been too small to have any significant impact in distribution to Pennsylvania's needy individuals. We have estimated that at least 1.25 million families are being served through these programs. Therefore, when Pennsylvania receives less than 1.25 million units of a commodity, decisions must be made on allocation, which will please a few but anger even more. For example, Pennsylvania's allotments of Title II commodities from July through September show only:

88,000 five-pound bags of corn meal
280,224 two-pound bags of milled rice
204,000 three-pound cans of honey
and 144,000 five-pound bags of A.P. flour

Butter shipments scheduled for September into Pennsylvania amount to only three trucks--115,236 one-pound blocks.

It is inconceivable that any state agency, or consortium or advisory council of volunteer organizations can, on short notice, develop a fair plan for insuring that the needy families of Pennsylvania each receive adequate supplies of these commodities.

I would respectfully suggest that if only small quantities of these surplus become available, and that quantities are not enough for a full statewide distribution, that the commodities instead be earmarked for distribution through the military, state hospitals, feeding programs and school lunch programs.

Pennsylvania has been successful--and very fortunate in the 18 months of the ongoing cheese and butter distribution. This success is largely due to the tremendous amounts of time, effort and money that have gone into the distribution program from our volunteer and charitable organizations.

The Commonwealth of Pennsylvania is committed to working with these agencies to continue distribution of surplus commodities to needy individuals and families in Pennsylvania, but also feels that the federal government must now assume its share of the programs--in funding, in distribution and in responsibility.

Statement of Wayne Nelson
Immediate Past President
National Association of Wheat Growers

Mr. Chairman and Members of the Subcommittee:

The National Association of Wheat Growers appreciates this opportunity to present its views on implementation and reauthorization of the Temporary Emergency Food Assistance Act of 1983. I am Wayne Nelson, immediate past president of the National Association of Wheat Growers, and a wheat farmer from Winner, South Dakota.

Mr. Chairman, U.S. grain farmers are being smothered by excess stocks, and large global supplies, coupled with the strength of the U.S. dollar during a worldwide recession and the financial problems of major import nations, have prevented the growth in demand necessary for market recovery. As a result, wheat prices and farm income remain depressed, and the cost of government price and income support programs has soared. This led to the imposition of the "Payment-In-Kind" diversion program, in addition to a reduced acreage and diversion for cash program for 1983 wheat. The Secretary has announced his intention to operate both a reduced acreage and land diversion program for 1984 wheat, as well.

Strengthened child nutrition, food bank, and other feeding programs are a logical complement to these supply management programs, and P.L. 98-8 not only makes surplus commodities available for these feeding programs, but also provides funding for processing, packaging and storing of commodities where necessary to make the commodity useable by schools and other public institutions charged with large scale feeding programs. This comprehensive approach will undoubtedly have the effect of expanding consumption within this distribution network.

Use of Food Security wheat stocks is clearly necessary for the feeding programs authorized in Title II of the 1983 Jobs Bill, both during the current fiscal year, and during 1984. CCC-owned wheat is totally committed for disbursements in the PIK program this year, so that, although the U.S. now holds the largest surplus wheat inventory on record, government-owned stocks will not be available for distribution unless the Reserve is utilized for this purpose. The Jobs Bill authorizes use of 300,000 metric tons of reserve wheat during 1983 for institutional feeding programs. This represents only 7.5 percent of the four million metric ton reserve, which has remained completely untouched during the three years of its existence.

Under the authority provided in the Jobs Bill to access the Food Security

Reserve, replenishment of any stocks which are used to feed needy Americans and school children must be completed at least by the end of the year. We believe that this is an adequate safeguard to assure availability of food stocks if an emergency situation should develop.

Mr. Chairman, we continue to vigorously support passage of S. 17, which would authorize use of up to two million metric tons of wheat for increased domestic distribution. In the interim, however, reauthorization of the one-year program established in the Jobs Bill should receive priority consideration, so that these feeding programs will not be interrupted once distribution begins.

I would also like to take this opportunity to express the NAWG's concern that USDA has not yet carried out the mandate of Congress in administering the 1983 Food Assistance Act. USDA has announced that five million pounds of flour will be made available over a five-month period, but no plans have been drawn to distribute the minimum 300,000 tons provided for in the Act. With less than three months remaining in the current fiscal year, it is obvious that USDA is attempting to sidestep Congressional instructions to generate a program level of at least 300,000 tons in fiscal 1983. We urge the Committee to reaffirm its intentions to the Secretary, and to require immediate compliance.

Since USDA has so far made a commitment to distribute only a modest quantity of wheat flour, and has not yet released any Food Security Reserve wheat for operation of the 1983 commodity distribution program, it is not possible to fully document our contention that displacement of commercial sales would not take place. However, since the recipient agencies designated by this law do not have funds for expanded commercial purchases, it is evident that wheat and flour donations would improve these feeding programs with no impact on commercial sales.

At the same time, since USDA would replenish Reserve stocks from inventories acquired through loan forfeitures or other means, additional quantities of surplus grain would be isolated from an already soft market. Although 300,000 metric tons is not a substantial amount of grain, the nation's current wheat surplus is so serious that all efforts must be made to reduce free stocks.

In spite of excellent participation in the 1983 reduced acreage programs, wheat carryover will remian substantially the same at the end of the marketing season. At the same time, free stocks will increase dramatically this year compared to last, since PIK entitlements must be marketed within a short period

of time, and the bulk of wheat produced on acres not enrolled in the 1983 program will be marketed close to harvest.

Buildup of the wheat surplus has also been accentuated by export declines this year, and exporters are not optimistic that this situation will change substantially next year. The Congress has appropriated funds for export credits which the Department continues to hold in reserve, but without renewed efforts to finance U.S. agricultural exports, there will be little hope of accessing new markets. Limited growth of foreign markets makes increased domestic utilization all the more important in reducing wheat supplies.

Mr. Chairman, I appreciate the opportunity of appearing before the subcommittee this morning, and I will be pleased to answer any questions which you may have.

[The following article was submitted by Senator Dole, see p. 56 for oral reference.]

Cheese Donations and Their Effect on Commercial Disappearance

(By James Zellner and Clifford Carman[1])

Abstract: The free cheese distribution that USDA began in early 1982 apparently resulted in some displacement of commercial sales of American-type cheese in fourth-quarter 1982 and first-quarter 1983. The long-term trend in cheese consumption is up, and commercial disappearance of other-than-American-type cheese rose 11.9 percent in fourth-quarter 1982 and 7.2 percent in first-quarter 1983. However, disappearance of American-type cheese fell 5.1 and 15.2 percent, respectively, during the two quarters. Meanwhile, during the last 3 months of 1982, the free cheese distribution averaged 20.1 million pounds a month—11.4 percent of the fourth-quarter 1982 commercial disappearance. Likewise, for the first 3 months of 1983, the free distribution averaged 43.2 million pounds a month—28.2 percent of commercial disappearance.

Keywords: Cheese distribution, commercial disappearance, displacement.

The USDA under the special distribution to needy persons program has distributed, through food banks and other charitable agencies, 356 million pounds of American processed cheese from the beginning of 1982 through April 1983.[2] In addition, USDA has announced that Cheddar as well as processed cheese would be available for distribution during the rest of 1983. Early distribution was relatively small, but in late 1982 and early 1983 the levels were raised significantly and displacement of commercial sales became apparent.

Each State has the authority to specify the eligibility requirements of the target recipients. Generally, participants in the Food Stamp Program, Aid to Families with Dependent Children, Supplemental Security Income, and other such programs may receive free cheese. The target population is currently estimated to be about 27 million.

Distribution averaged about 12 million pounds per month for the first 9 months of 1982, as the distribution network was being formed in States and localities. However, by late 1982, the mechanisms were in place and the volunteers had experience with the program, and in early 1983 the monthly distribution reached 60 million pounds. These high levels appear to have resulted in displacement of commercial sales as a result of reduced commercial purchases by eligible recipients. Also, the cheese has been distributed in relatively large—5-pound—loaves. Some reduction may have occurred in commercial purchases by secondary recipients—those who may have been given cheese by participants unable to use all they received.

To the extent that there has been displacement of cheese sales, processors have either had to hold larger inventories or sell additional product to the Commodity Credit Corporation (CCC). In fact, net cheese purchases by CCC during October–December 1982 and January–March 1983 were up 60 and 64 percent, respectively, from year-earlier levels. While part of the larger purchases can be explained by a higher level of milk production, a share of the increased removals was because of the displacement of sales.

CONSUMPTION TRENDS

Consumption patterns change only gradually, but the cumulative effect of small year-to-year changes in consumption can be quite large over an extended period of time. Per capita civilian consumption (retail sales plus donations) of cheese has risen substantially over the past 20 years (table A). Total consumption of American-type cheese (Cheddar, Colby, washed curd, stirred curd, Monterey, and Jack) increased more than 84 percent from 1963 to 1982, and consumption of other-than-American-type cheese (Swiss, Italian types, Muenster, etc.) gained about 170 percent over the same period.

Cheese consumption is affected by tastes and preferences, incomes, and cheese prices relative to the prices of other protein foods. Over the past couple of years, tastes and preferences have likely changed little, incomes are nearly unchanged,

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[1] Branch chief, Food and Agricultural Policy Branch (202–447–4943) and agricultural economist, Animal Products Branch (202–447–8636), respectively, NED, ERS, USDA.

[2] Cheese is also distributed as a bonus commodity to schools, needy families, and charitable institutions. A total of 102 million pounds of cheese was distributed during October 1982–March 1983, 22 million more than a year earlier.

and cheese prices have stabilized. The prices have remained unchanged because supplies have been more than ample, and because support purchase prices have not changed. The stable prices helped account for the relative strength in cheese sales during 1981 and first-half 1982 in spite of recession-caused stagnation in income levels. With unchanged prices, cheese was a better buy relative to other protein foods.

TABLE A.—CIVILIAN PER CAPITA CHEESE CONSUMPTION, 1963–82

[In pounds]

Year	Cheese				
	American [1]			Other [2]	Total
	Sales [3]	USDA donations	Total	Total	
1963	5.4	0.7	6.1	3.1	9.2
1964	5.5	.7	6.2	3.2	9.4
1965	5.7	.5	6.2	3.4	9.5
1966	6.2	.0	6.2	3.6	9.8
1967	6.0	.4	6.4	3.7	10.1
1968	6.0	.6	6.6	4.0	10.6
1969	6.3	.4	6.7	4.2	11.0
1970	6.8	.3	7.1	4.4	11.5
1971	7.0	.4	7.4	4.7	12.1
1972	7.5	.3	7.8	5.3	13.1
1973	7.9	.0	7.9	5.7	13.6
1974	8.3	.3	8.6	6.0	14.5
1975	7.9	.3	8.2	6.1	14.4
1976	8.8	.2	9.0	6.7	15.6
1977	8.7	.6	9.3	6.8	16.1
1978	9.2	.4	9.6	7.4	16.9
1979	9.4	.2	9.6	7.6	17.2
1980	8.9	.8	9.7	7.9	17.6
1981	9.4	.7	10.1	8.1	18.2
1982	9.3	1.9	11.2	8.4	19.6

[1] Includes natural and processed American cheese (i.e., cheddar, colby, etc.).
[2] Includes natural and processed other cheese (i.e., Swiss, Italian-types, Brick, Muenster, Blue, etc.).
[3] Domestic disappearance, commercial sources.
[4] May not add due to rounding.

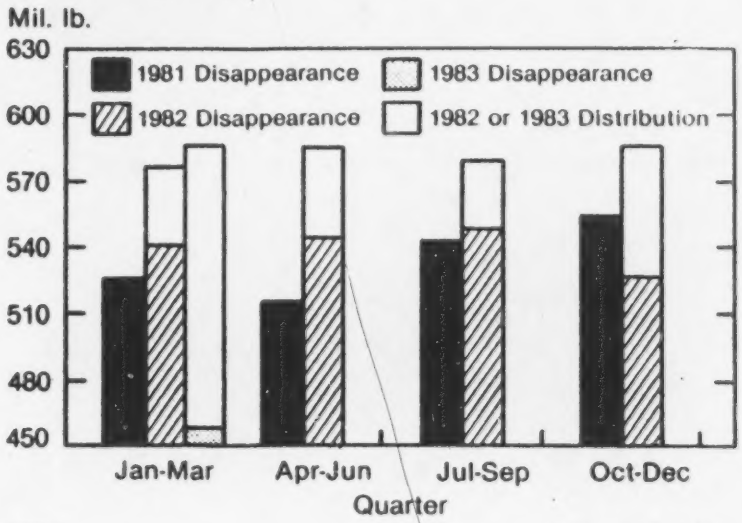
COMMERCIAL DISAPPEARANCE

The USDA has no time-series data on final retail sales or individual's purchases of food items like cheese; however, the Statistical Reporting Service (SRS) of USDA collects cheese production and stocks data, and these are used by the Economic Research Service (ERS) in its outlook program to monitor the dairy sector. Table B illustrates the typical supply and commercial disappearance calculations made using the data from SRS, additional import data from Bureau of the Census, and

net removals from CCC. Production is added to beginning commercial stocks and imports to obtain an estimate of supplies available for commercial uses. Ending commercial inventories and net CCC removals are subtracted from supply to obtain a residual estimate of commercial disappearance. Commercial disappearance serves as an estimate, though imperfect, of final sales.

As indicated in table B, commercial disappearance of American and other cheese has been rising almost continuously each quarter over the past 2 years, even throughout the recession. Beginning in the fourth quarter of 1982, however, the commercial disappearance of American-type cheese fell by 5.1 percent from the same period in 1981. At the same time, sales of other cheese continued to rise, increasing by 11.9 percent. The same pattern continued during first-quarter 1983; other cheese sales continued to rise, going up 7.2 percent, while American cheese sales dropped more than 15 percent.

Commercial Disappearance and Distribution of American Cheese



USDA

Neg. ERS 357-83(6)

TABLE B.—SUPPLY AND UTILIZATION OF CHEESE

	Units	1981				1982				1983
		I	II	III	IV	I	II	III	IV	I
American cheese: [1]										
Supply:										
Production	Million pounds	645.8	749.6	627.3	619.2	662.1	759.4	673.2	655.7	705.2
Beginning commercial stocks	do	422.8	410.3	425.4	374.5	373.8	367.8	365.6	318.1	334.7
Imports	do	3.0	3.6	3.6	9.8	1.1	4.6	6.0	6.1	5.1
Total	do	1,071.6	1,163.5	1,056.3	1,003.5	1,037.0	1,131.8	1,044.8	979.9	1,045.0
Use:										
Ending commercial stocks	do	410.3	425.4	374.5	373.8	367.8	365.8	318.1	334.7	376.1
Net CCC removals	do	132.9	219.8	137.1	73.2	127.9	220.1	177.3	117.1	209.7
Subtotal	do	543.2	645.2	511.6	447.0	495.7	585.7	495.4	451.8	585.8
Commercial disappearance	do	528.4	518.3	544.7	556.5	541.3	546.1	549.4	528.1	459.2
Change from year ago	Percent [2]	+3.8	+3.3	+15.6	+3.9	+2.4	+5.4	+0.9	−5.1	−15.2
Other cheese: [3]										
Supply:										
Production	Million pounds	388.7	415.0	400.7	430.9	411.9	443.5	448.1	485.8	439.2
Beginning commercial stocks	do	99.3	89.7	100.8	95.7	86.6	80.9	91.6	99.2	82.8
Imports	do	34.2	46.5	54.0	92.9	45.3	51.7	60.5	94.0	59.4
Total	do	522.2	551.2	555.5	619.5	543.8	576.1	600.2	679.0	581.4
Use:										
Ending commercial stocks	do	89.7	100.8	95.7	86.6	80.9	91.6	99.2	82.8	85.3
Commercial disappearance	do	432.5	450.4	459.8	532.9	462.9	484.5	501.0	596.2	496.1
Change from year ago	Percent [2]	+3.7	+6.1	+4.9	−2.0	+7.0	+7.6	+9.0	+11.9	+7.2
Total American and other:										
Commercial appearance	Million pounds	960.9	968.7	1,004.5	1,089.4	1,004.2	1,030.6	1,050.4	1,124.3	955.3
Change from year ago	Percent [2]	+3.8	+4.6	+10.4	+0.9	+4.5	+6.4	+4.6	+3.2	−4.9

[1] Includes natural and process cheese (i.e., Cheddar, Colby, etc.).
[2] On a daily average basis.
[3] Includes natural and process (i.e., Swiss, Italian-types, Brick, Muenster, Blue, etc.).

TABLE C.—*Deliveries of process cheese under the special distribution program*

[In millions of pounds]

Year and month or quarter	*Cheese deliveries*
1982:	
January	6.3
February	17.8
March	14.5
1st quarter	38.6
April	16.2
May	15.1
June	10.3
2d quarter	41.6
July	8.4
August	9.0
September	13.2
3d quarter	30.6
October	11.6
November	22.4
December	26.2
4th quarter	60.2
Annual total	171.0
1983:	
January	25.9
February	43.6
March	60.0
1st quarter	129.5
April	55.5

It is difficult to assign any cause for the drop in American-type sales except the free cheese distribution.[3] The same general economic factors were affecting each segment of the cheese market. Unemployment was peaking at around 10.8 percent, prices of cheese and competing foods should have had the same impact on both markets, and high real interest rates were generating the same incentives for processors, wholesalers, and retailers to cut inventory.

It has been suggested that consumers' preferences have abruptly shifted from the American-type to the other type cheese. To be sure, the longer term data in table A show that a disproportionate share of the total growth has gone to other cheese. However, a shift of preferences over 6 months of the magnitude shown in table B would be without precedent. Consumer preferences do not change that quickly, in large part because habit is important in food choices.

Since there are no known demand factors to explain the large drop in American cheese sales, one must turn to the special donation program for needy persons. From the first 9 month average of 12 million pounds per month (36 million per quarter), USDA during the fourth-quarter 1982 distributed cheese at an average rate of 20 million pounds per month, reaching 26 million in December (see table C). In the first quarter of 1983, special distribution averaged 43 million pounds per month, reaching 60 million in March.

A clearer understanding of how the USDA distribution affected sales may result from an examination of per person consumption. Low-income consumers reported in the 1977–78 Nationwide Food Consumption Survey (NFCS) that they annually consumed about 5 pounds of American processed cheese per person and about 9 pounds of all American-type cheeses. Thus, if cheese were distributed evenly across the eligible 27 million persons, the target population's normal monthly consumption would equal 11–12 million pounds of American processed cheese and about 20 million pounds of all American-type cheese. Likewise, the target population would consume 8 to 9 million pounds of other-type cheese.

In the NFCS, low-income consumers reported eating about 20 percent less cheese than the average U.S. consumer, suggesting that there is some room for increased consumption of cheese before commercial displacement takes place. However, given the normal monthly consumption levels of the target population, distribution on the order of 50–60 million pounds per month—nearly three times the normal consumption of all American-type cheese—would be expected to lead to commercial displace-

[3] Even if all of the additional 22 million pounds of bonus cheese resulted in lower commercial sales, that would explain less than one-fifth of the total decline in disappearance.

ment. Displacement would be even more likely if recipients gave excess cheese to others who might not be part of the target population.

The extent of commercial displacement resulting from the cheese distribution program is difficult to estimate. Some increase from 1982 in commercial disappearance of American-type cheese—about 1 percent—would be expected solely because of population growth. Further, evidence of growth in sales of other-than-American-type cheese suggests that general economic conditions would also lead to some increase in American-type cheese sales beyond that due to population growth. Over the past 20 years, other cheese sales have grown at about twice the rate of American-type cheese sales. Thus, sales growth that could be expected for American-type cheese for late 1982 and early 1983 could be set at between 1 and 4 percent. The market has clearly fallen short of those levels (table B).

There are other factors complicating the estimate of displacement. One is the possible larger consumption because of displacing meat and other food items in the diet. Another factor is the household inventory behavior of recipients. Cheese is a reasonably storable item. Thus, if a recipient gets a quantity of processed cheese which exceeds his immediate needs, he can store it. However, the program is designed to distribute cheese periodically, so that over time some additional household inventory buildup could occur.

The effect of such an inventory accumulation on commercial sales may be observed only after a time. In the aggregate, such a phenomenon may account, in part, for there being little or no evidence of displacement over the first 9 months of the distribution program (January-September 1982) and for the displacement's apparently approaching 100 percent in the early part of 1983. The earlier distributions may, in fact, be influencing commercial sales now.

Another factor complicating the estimate of displacement is that high interest costs have given processors, wholesales, and retailers increased incentives to reduce inventories. For example, a sudden decrease of inventories in retail stores and the retail distribution channel would show up in the data (table B) as an apparent decrease in commercial disappearance. Likewise, during periods when stocks of processed cheese are moving downward (compared with a year earlier), commercial disappearance will appear weaker than it actually is until the adjustment is completed. For nearly 2 years, all marketers have been keenly aware of the need to minimize inventories. Though nominal interest rates have been declining for the past year, inflation-adjusted rates remain high. There would not appear to be a differential incentive for one part of the marketing chain to reduce inventories vis-a-vis another. No data on processed cheese and retail inventories are available to say conclusively that some part of the apparent displacement is not due to commercial inventory shifts. However, given the small size of inventories relative to final sales, interest-rate induced changes in inventories, even if they have occurred, could not account for a significant portion of the apparent displacement.

This raises some concern over the displacement to be expected over the coming months. For the first 4 months of 1983, over 46 million pounds of cheese were distributed per month. USDA announced in April that distribution levels would be cut to 25–35 million pounds per month. Even if those levels are achieved by June and July, it may be several months before the effect of the high January-April distribution works through the market. Thus, it is likely that aggregate data will tend to overstate actual coincident displacement for some months to come and as a result commercial disappearance during the spring and summer may remain below what it otherwise would have been.

Statement of S. F. Riepma, President, National Association of Margarine Manufacturers

This statement is submitted to you and the Subcommittee on Nutrition of the Senate Committee on Agriculture, Nutrition and Forestry, in order to provide our comments on the Committee's consideration of surplus commodities distribution legislation. Specific proposals are S. 17 and H. 1590.

I request that this statement be made part of the record of the hearing of July 12.

The National Association of Margarine Manufacturers is a nonprofit organization representing the manufacturers of most of the margarine products consumed in this country. The Association has long been concerned with the programs of surplus butter distribution which for many years, have worked to displace commercial sales of margarine. Since the advent of the current "special distribution" program through the U.S. Department of Agriculture, the distribution of government-pur-

chased butter has expanded to massive proportions. Since January 1983 the total such distribution is reported to have been 50 million pounds or more.

Government-held butter of course results from the support price, which has been kept high. Government removals of butter from the national market amounted to 383 million pounds in 1982 alone, or approximately 30 percent of that year's production. Since August 1982 the flow of surplus butter into the special distribution program, for needy or indigent persons, has increased far beyond previous levels. Until March 24 this flow was at the discretion of the Secretary of Agriculture. On that date legislation by Congress, the so-called "Jobs" bill, mandated distribution for the relief of needy persons.

The concept of this legislation, supplies of surplus food being on hand, was to make it available on a temporary basis to those who for one reason or another cannot afford to buy food they need. Currently, however, the Committee is considering legislation longer-term to extend the program. It may reasonably be asked if the extension constitutes a longer-term program that will, in the end, not really be temporary.

This is in part because the surplus butter problem is not solved by distributing the product. It does nothing to slow production.

The "jobs" bill was, and S. 17 is, premised on the condition that the distribution program must not work injuriously to normal commercial sales. It is obvious that the normal commercial sales displaced by butter distribution are margarine sales as well as butter sales. On April 27 the Secretary of Agriculture set limits on the flood of cheese and butter being pushed into the distribution system. That for butter was 10 million pounds per month. Why this figure was chosen is not explained. It appears that the amount of margarine being displaced is 50 to 60 million pounds for the first six months of this year.

The injury extends to the farm products utilized in margarine. In 1982 it provided a market for some 2,036 million pounds of refined domestic food fats and oils. Predominant is soybean oil, of which 1,653 million pounds, refined basis, were utilized in margarine, the equivalent, 1982 basis, of some 5 million acres of soybeans. The soybean industry currently is experiencing marketing problems, particularly with its edible oil.

The butter situation has become unstabilized. Despite the heavy distribution program, as of May 31 some 470 million pounds of butter remained in government storage. More is being added. The support system must be adjusted to accomplish reasonable protection of all concerned. That is the priority consideration. Emergency hunger programs, however meritorious, are something else, and in any event cannot be nutritionally fulfilled by massive butter giveways.

Margarine is a nutritious food product excluded from free distribution by the government. It is not price supported. It is totally unfair that the normal commercial sale of this basic food is being displaced by free butter distribution, which in turn is caused by a failed system of dairy supports.

We respectfully ask that distribution of surplus butter be subject to the strongest possible safeguards against displacement of margarine sales.

[The following letters were submitted by Senator Leahy, see p. 13 for oral reference:]

[Memorandum]

BARRE, VT., *July 11, 1983.*

To: Liz Slayton, office of U.S. Senator Patrick Leahy.
From: Central Vermont Community Action Council, Inc., Gus Seelig, Executive Director.
Subject: Low Income Food Needs.

In response to your request for information regarding the need among low income area residents for government commodities and other food resources, CVCAC staff have compiled the following data:

When CVCAC conducted its annual Community Needs Survey in late May, 1983, 31 percent of the below-poverty respondents reported that they "can't afford enough good food".

CVCAC now has 4,950 households enrolled in its fiscal year 1983 commodity program. Shipments of commodities are sufficient to supply only about 63 percent of total enrollment.

A recent study conducted by the Vermont Department of Social Welfare revealed that only 55 percent of the households in Vermont eligible for Food Stamps are participating in that program. One reason for this is inadequate information about eli-

gibility among the needy. However, CVCAC has discovered that many low income householders are willing to utilize the commodity program while stubbornly refusing to participate in the Food Stamp or any other program administered by Social Welfare. As an indicator of this "pride factor", 35 percent of the below-poverty households in CVCAC's fiscal year 1983 caseload receive no benefits from the ANFC, Medicaid, SSI, Food Stamp or General Assistance programs although most probably qualify for one or more programs.

Those households who are enrolled in Vermont's Food Stamp program are facing a possible 20 percent cut in benefits next month due a shortfall in the budget which has not yet been supplemented by Congress. Without Congressional action, the federal budget shortfall reportedly could result in a September shutdown of the Food Stamp program nationally.

In the first three quarters of fiscal year 1983, CVCAC outreach staff have responded to 579 requests for emergency food. The demand rate on CVCAC food shelves is running double that for fiscal year 1982. This situation extends beyond central Vermont. The Champlain Valley Office of Economic Opportunity (CVOEO) reports that demand on its food shelves has doubled each year since 1980. CVOEO also operates a soup kitchen which, with improvements to the facilities, served 4,294 meals in the first six months of 1983, compared to 1,938 meals for the entire previous year.

COMMODITY PROGRAM OPERATIONS

As you know, CVCAC serves a 56-town area covering 2,000 square miles. There are 7,158 households who qualify for this program under the State's 125 percent poverty guideline. The Agency has enrolled 4,950 families this year, but current supply provides commodities for only 3,000 households each month—62.5 percent of those enrolled and 42 percent of those eligible. Continued supply at the current level or preferably at an increased level to meet the need is critical.

Funds are also needed for decentralized storage. At this time, USDA will not allow the purchase of freezers. Increased full-time staff is also critical. At this point, we have only one person coordinating service to 3,000 households. USDA has advised us that our coordinator cannot be paid with their funds during down-time between distributions.

Despite its shortcomings, the program does assist a large number of households each month. The program enjoys large community support through the donation of hundreds of volunteer hours each month.

WINDSOR COUNTY UNEMPLOYED COUNSEL,
Springfield, Vt., July 11, 1983.

Senator PATRICK LEAHY,
U.S. Senate,
Washington, D.C.

DEAR SENATOR LEAHY: I am writing to you in regards to the recent restrictions and cut-off of the cheese and butter in the Springfield, Vermont area. It is understood that there will be no cheese for the month of July and no cheese or butter nor commodities for the month of August. The Counsel and its 575 members feel very strongly against this action in as much as it is taking food from our mouths and the mouths of our children.

Without the cheese and butter and with the unemployment situation as critical as it is in the Windsor County area, the people would still not be able to purchase these items from retail outlets anyway.

We feel it is a waste of taxpayers money to store and refrigerate products for which taxpayers have already paid for.

Please do everything in your power to correct this situation before it becomes a catastrophe.

Sincerely,

GARY J. LARMAY, *Chairman.*

[The foliowing material was submitted by Senator Wilson, see p. 14 for oral reference:]

STATE OF CALIFORNIA SENATE,
Sacramento, Calif., July 1, 1983.

Hon. PETE WILSON,
U.S. Senate,
Washington, D.C.

DEAR SENATOR WILSON: As members of the California State Senate, we would like to advise you and the Senate Agriculture Subcommittee on Nutrition of our support for the immediate passage of S. 17, the Domestic Commodity Distribution and Food Assistance Act.

The Federal Emergency Jobs Act (Public Law 98-8) allows the surplus commodity food program to give greater consideration to domestic emergency food programs. As a result, we in California are reaching a broader number of unemployed, elderly, and low-income people with food commodities.

Although the helpful emergency food provisions of the Jobs Bill expire on September 30, 1983, S. 17 would assure that the surplus commodity food program distribution programs continue to give consideration to domestic food distribution needs.

We in the State Senate are also attempting to address this issue. We anticipate including in the 1983-84 State Budget Act the establishment of a California Committee on Emergency Food Distribution to assure that the four food programs now operating with funds from the Federal Emergency Jobs Act are coordinated and administered in the most efficient manner, fully utilizing designated Federal funds.

The State Senate is also developing a plan for its members' consideration to assure efficient access to commodities available in California, and to provide for delivery systems involving community-based organizations.

Earlier this year, the California Senate Subcommittee on Aging held hearings on the unmet nutrition needs of the elderly. It was clear from those hearings that additional use of surplus commodities could help meet the nutritional needs of senior citizens that are not being met presently.

The agricultural abundance of our nation should be shared with our citizens who need it in the most equitable and efficient manner possible. S. 17 goes a long way toward improving our ability to provide food on an emergency basis.

We are very grateful to the Subcommittee on Nutrition for its focus on the commodity distribution programs. We are hopeful that the July 12th hearing will demonstrate that the program envisioned in S. 17 should be promptly enacted so that the needs of our nation's hungry will not go unmet.

Sincerely,

David Roberti, Wadie P. Deddeh, John Foran, Bill Greene, Ray Johnson, Dan McCorquodale, Joseph Montoya, Robert Presley, John Seymour, Walter Stiern, Bill Lockyer, Alfred E. Alquist, Ralph C. Dills, John Garamendi, Leroy F. Greene, Milton Marks, Henry Mello, Nicholas C. Petris, Herschel Rosenthal, Ollie Speraw, Diane Watson.

STATEMENT OF HON. BILL GREENE, A CALIFORNIA STATE SENATOR

As a member of the California State Senate, I would like to urge your support for S. 17, the Domestic Commodity Distribution and Food Assistance Act. This measure is essential in California as a mechanism for continuing to distribute agricultural surpluses to thousands of economically distressed citizens who are hungry, malnourished and in need of food assistance.

The Federal Emergency Jobs Act (Public Law 98-8) is currently being used in California to distribute critically needed commodities to food banks for distribution to needy households within low-income communities and to serve congregate meals in areas of high unemployment throughout the State. Recognizing the vital need for the Federal programs under Public Law 98-8, the State has established a California Committee on Emergency Food Distribution. This committee is composed of representatives of State and local public and private entities, including State Administrative Agencies, large and small counties, labor groups, older Americans organizations, community action agencies, and public and private non-profit entities. In addition, Veterans organizations, child care agencies and representatives of school nutrition programs are participating in California's coordinated emergency jobs bill food program.

Several provisions of S. 17 are particularly consistent with the approach California is taking in implementing the Federal Emergency Jobs Bill food programs. These include:

Efficient procedures allowing for utilization of existing systems, expanding upon these systems as necessary, to distribute a broad range of surplus agricultural commodities; Authorization of a wide array of entities, such as soup kitchens, food pan-

tries and hunger centers, to participate in the distribution of surplus commodities; and Safeguards to assure that surplus commodities are distributed only in such quantities as can be consumed without waste or abuse (based on anticipated usage and immediate storage capacity) and that commercial sales of such commodities are not displaced.

California considers the continuation of this surplus agricultural commodities distribution program to be vitally important. We are working with the National Conference of State Legislatures (NCSL) on this matter and anticipate NCSL passage of a resolutior at its forthcoming August meeting urging Congress and the Administration to take immediate action to ensure that these emergency food distribution programs continue. The dual benefits of (1) providing critically needed foods to hungry individuals and families in communities throughout the United States, and (2) minimizing the nation's loss and waste of surplus agricultural commodities cannot be overlooked.

While California's programs for distributing surplus agricultural commodities are to a large extent in their infancy, we understand that they are among the most extensive efforts in the nation. We will therefore be available to provide to the U.S. Senate any additional information which might be useful in your deliberations on S. 17.

In closing, I would like to commend the Subcommittee Chairman, Senator Dole, for his interest and advocacy of this important proposal. In addition, I would like to thank Senator Pete Wilson for his recognition of the importance of this program and for his leadership role in formulating S. 17.

I would like to urge the members of the Subcommittee to request that S. 17 be scheduled for full Senate consideration prior to the August recess. The House has already overwhelmingly approved its companion legislation, H.R. 1590, and I encourage the Senate to take a similar course to ensure that our Nation's hungry receive the assistance they need.

CAPITAL AREA COMMUNITY FOOD BANK,
Washington, D.C., July 15, 1983.

CHRIS BOLTON,
Hart Building,
Washington, D.C.

DEAR CHRIS: Thank you for the opportunity to comment this week on S 17. The testimony of Jo Ann Elliott from the Prescott Neighborhood Association of Kansas City, Kansas was, indeed, a hard act to follow. I think it needs to be pointed out, however, that community dynamos like Ms. Elliott are, unfortunately, the exception and not the rule. To underscore this I am enclosing a copy of a letter from Deborah Oswalt to Rob Fersh which cites examples from across the country of distribution problems created by a lack of funds.

The following is the summary of my remarks made at the hearing July 12:

This morning I am speaking on behalf of Second Harvest's USDA Liaison Committee. Second Harvest foodbanks distributed 39 million pounds—roughly 30 percent—of the government cheese handled through local emergency food providers in 1982.

The Second Harvest network, now 57 members strong, is one of the few national non-profit organizations specifically established to distribute food to charities that feed the poor. The network's primary function is to work with the American food industry to reduce waste by distributing donated products to member foodbanks. In 1982, 70 million pounds of food donated from the private sector were channeled to more than 8,500 charities by the Second Harvest network. These figures are double the network's efforts of 1981.

One of the issues I've been asked to address—the implementation of the Jobs Bill—is difficult to get a handle on because many places are negotiating terms and arranging details. Through surveys undertaken by Second Harvest, however, problems have surfaced.

—Reimbursement to local agencies for distribution has been severely limited, which could cause non-profits who are strapped for cash to cease participating in the distribution.

—This limitation is, in part encouraged by the regs themselves. Specifically, I refer to 7 CFR Section 251.3(g), published April 26, 1983.

This section defines "storage and distribution costs" to mean direct costs incurred by an emergency feeding organization or by a state for intrastate storage and transportation of any Title I or II commodity donated for use by an emergency feeding organization.

This definition creates a situation in which a state could gobble up all available "intrastate storage and transportation costs", leaving nothing for local agencies' actual distribution expenses.

—An additional limiting factor is the state agencies themselves.

Deborah Oswalt, Chair of Second Harvest's USDA Liaison Committee recently attended the annual conference of state distributing agency directors in Buffalo, NY. After making her presentation she talked with a number of the directors individually. In addition, Ms. Oswalt's been getting phone calls from foodbanks in various states.

From both of these sources it seems that the states are holding onto as much as of the money as possible. The directors were not receptive to plans to pass the money along to the local non-profits. A number told Ms. Oswalt outright that they were going to hold onto as much as they could. One even asked if she could be sued if she didn't give the money to her local agencies.

—The method of determining reimbursement is illogical in that it is not related to the cost of distribution.

To elaborate: Most foodbanks can operate at 10¢ per pound. This includes handling, storage, etc. However, the rate of reimbursement set out by the regs is 5% of fair market value—which in the case of items like cornmeal, flour, rice, and honey averages just under 1½¢ a pound.

—One other problem is that the quantities of commodities available for distribution have also been curtailed. For all the products (other than cheese and butter) there is not even enough to give one package to each food stamp household.

Suggestions: 1. A reimbursement formula should be developed that relates to the costs of distribution, rather than the value of the food. An amount per pound or per case, for example.

2. It should be made very clear that an amount is provided specifically for reimbursing local agencies for distribution costs—not just intrastate storage and transportation costs which usually go to the state entities—but for actual distribution from local non-profits to needy individuals.

Reimbursement is sorely needed in most states. Second Harvest surveys show that in many areas groups stopped distributing due either to a lack of funds or to a situation where dollars budgeted for other services and expenditures had to be sacrificed.

An increasing number of organizations are refusing to participate if some sort of reimbursement is not forthcoming.

3. More of the nondairy commodities should be provided.

At this point I'd like to comment on two items Second Harvest is very pleased with and hopes the government will continue: (a) packaging the commodities in household sizes; and (b) maintaining minimal red tape and paperwork requirements.

Additional suggestions: 1. Uniform eligibility criteria should be developed. These might include any recipient of Unemployment or Public Assistance benefits such as AFDC, Food Stamps, Medicaid, SSI, State General Relief, Fuel Assistance or Public Housing.

2. The Secretary of Agriculture should be required to publish estimates of commodities available for distribution for each of the next two years. In this way states and localities can plan cost effective, efficient distributions.

3. Specific language should be included that assures that individual public benefits will not be decreased by the value of the commodities an individual receives.

4. The Secretary should be required to make commodities available. Discretion is not enough. He's had discretion for a long time and hasn't utilized it. As a result, we now have in excess of 800 million pounds of cheese alone in storage.

5. Finally, legislation must reflect a clear intent that the distribution of commodities is but temporary and supplemental in nature and in no way is meant to replace or even reduce current federal food programs.

In summary, Second Harvest commends the release of surplus commodities for domestic distribution to hungry people. The suggestions offered should help such a program function more smoothly than the mass distributions of the past 19 months. We must all recognize, however, that this program will be counterproductive to the nation's hungry without strong, viable federal food programs.

Again, thank you for the opportunity to testify.

Sincerely,

RICHARD STACK,
Executive Director

VIRGINIA POVERTY LAW CENTER, INC.,
Richmond, Va., April 8, 1983.

ROB FERSH,
House Agriculture Committee,
Longworth House Office Building, Washington, D.C.

DEAR ROB: This letter responds to your request for information about problems foodbanks have experienced or observed as a result of having no money to reimburse costs incurred in the distribution of surplus cheese and butter. I gathered this information by interviewing about half of the 45 foodbanks in the Second Harvest Network. Second Havest foodbanks distributed 39 million pounds (approximately 30 percent) of the cheese handled through local emergency food providers in 1982.

Although most foodbanks used financial and in-kind donations to facilitate distribution in a recent survey, they unanimously recommended the reimbursement of costs related to distribution.

Reasons most frequently given for recommending reimbursement are lack of money, the unavailability and undependability of volunteers, the expense of training and supervising volunteers, the limited response of the private sector to requests for money and in-kind contributions, interference with regular services an agency provides and the costs incurred by distributing agencies at the expense of other budgeted items.

Specific examples of some of these problems follow:

A. Groups that have quit distributing cheese due to lack of money

1. The Interagency Foodbank in Portland, Oregon which initially distributed 100,000 lbs. of cheese, refused to participate a second time because it couldn't afford the costs of distribution.

2. Senior Escort Service of San Francisco which distributed 45,000 lbs./mo. to needy seniors in its service area, finally ceased its distributions because it couldn't afford them. Two other agencies in San Francisco, the Western Addition Senior Center and La Casa de las Madres (a battered womens' shelter) cut back their intake and distributions drastically due to the costs involved.

3. The Hunger Task Force in Columbus, Ohio which distributed 185,000 lbs. of cheese to the entire county on four different occasions quit because of the costs, the excessive amount of staff time and the interference with other services associated with the distributions.

4. Forty-three agencies in Cincinatti, Ohio distributed cheese during the first distributions. All but one quit due to costs and inadequate resources. The remaining agency, the Free Store, has absorbed costs of over $8,000 for storage alone at the expense of other program expenditures.

5. In Connecticut, municipalities took the lead in distributing cheese. They did it once, had no money and did it no more. A few small agencies have tried to take over the distributions, but participation is declining as a result of the costs of distribution.

6. The Emergency Assistance Coalition and its fifty member agencies in Kansas City, Mo. spent $60,000 for each of four distributions totaling 834,000 lbs. of cheese before it quit. The Coalition has refused to distribute more cheese or other commodities without reimbursement for costs incurred.

7. Of the twenty-five agencies distributing cheese in Allegheny County, Pa. (surrounds Pittsburgh), many have said they will have nothing to do with distributions after the current one. Most of them can't handle the staff time and costs involved.

8. The Atlanta Community Foodbank (Georgia) absorbed the costs during its first distribution of 109,000 lbs., but refused to get involved in further distributions due to the costs. The state promised to reimburse the foodbank for the second distribution (another 109,000 lbs.), but never paid and the foodbank absorbed even more costs. The third distribution was undertaken by Joint Urban Ministries which has refused to do it again due to the expense and time involved.

9. Genessee Valley Foodbank in Rochester, N.Y. incurred over $7,000 in expenses in two distributions totaling 125,000 lbs. It refused to participate in further distributions because of the costs. A local community action program agreed to take responsibility for future distributions, but has not yet handed out cheese because it can't find the money to pay the costs.

10. Each of eight to ten churches in Cleveland, Ohio distributed a semi-load (33,600 lbs.) of cheese twice before refusing to participate in future distributions. The churches couldn't mobilize enough resources and couldn't afford it. No local Cleveland agencies are distributing butter due to the high storage costs that would be incurred.

11. Cheese distribution in Santa Clara, California has decreased from 8 semi-loads/mo. to one a month because local agencies cannot afford to keep up with demand. As a result, large numbers of eligible people are not receiving cheese and other commodities.

12. New York City's cheese distribution (or lack of it) was the subject of a CBS News report by Leslie Stahl (1/1/83). The City, which has so many eligible people that it could distribute 55 million lbs. of cheese, only distributed cheese once (Spring, 1982), and had to stop because it ran out of money. Meanwhile pictures showed a huge warehouse in Albany which stored massive quantities of cheese at a cost of $1,400/day.

13. The foodbank in Rhode Island responded as many local groups did when the cheese first became available; its board simply passed a resolution refusing to distribute cheese without reimbursement.

B. Decreased donations and volunteers

1. Decreased donations in Riverside, California have resulted in decreased cheese distributions. The trucking firm which provided a refrigerated truck to Indio, California has terminated its donations. The result: no more cheese to Indio on a regular basis.

Lack of money for storage limits the amount of cheese which the foodbank can distribute to the amount its on-site refrigerator can hold (1½ semi-loads).

2. Storage space is no longer donated in Salem, Oregon.

3. The National Guard has given notice that it will no longer provide free transportation in Massachusetts.

4. Donated storage space is only available in the "off season" in Seattle, Washington.

5. Specific problems with the availability and dependability of volunteers have been cited in Cleveland, Atlanta, Seattle, Kentucky, and Oregon.

Evidently, volunteers are willing to respond to a one time project, but lose interest in participating on a regular basis. Donors of money and in-kind items respond similarly. They are often willing to help with a short term project, but are less than eager to make any type of longterm commitment.

Foodbanks regularly solicit volunteers and financial and in-kind donations as part of their normal operating procedures. Several complained that they were using up all of their favors or community goodwill on cheese distributions and were receiving less help with regular operations as a result. The affect was higher overall operating costs.

C. Interference with other services or expenditures

Over two-thirds of the survey respondents absorbed the costs associated with distribution into their own budgets at the expense of other planned for expenditures or services. Specifically:

1. The Santa Clara Foodbank did not purchase a truck as planned, due to the extra storage costs associated with distributing cheese.

2. The diversion of funds for commodity distributions prevented the foodbank in St. Louis, Missouri from acquiring various pieces of warehouse equipment it had planned to purchase.

3. The Free Store in Cincinnati spent money designated for warehouse improvements on the storage of cheese.

4. The Emergency Assistance Coalition in Kansas City, Missouri distributed cheese to the detriment of other services it provides such as taking or processing energy assistance applications.

5. Six agencies in Rochester, New York such as settlement houses and community centers only distributed cheese once because regular services were too disrupted for weeks at a time. As a result, switchboards were jammed, people couldn't meet with counselors, caseworkers were stymied in attempts to help people find shelter and other basic necessities.

6. A number of foodbanks in California have recently declined regular Second Harvest products because their freezers and refrigerators are full of commodities and they don't have enough money for extra storage costs.

7. Departments of welfare in Virginia have utilized staff and volunteer time and valuable resources needed for other services such as day care or care for the elderly to provide commodities.

8. Local agencies in Multnomah County, Oregon were so disrupted by trying to distribute cheese and provide their regular services to increasing numbers of people, that they called a press conference to complain about the situation and to refuse further involvement in distributions. They also wrote to Governor Atiyeh about their problems and asked for support:

"When the cheese came (along with the onslaught of media attention), these agencies were swamped for a week. They saw an average of 200 persons per day—a number that they usually see per week. Their phone lines were unable to do any of their other emergency services: shelter, clothing, transportation—it was solid cheese during that first week of February."

I hope this letter has provided you with the information you were seeking. Please let me know if I can answer any questions or be of further assistance.

Sincerely,

DEBORAH D. OSWALT.

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